

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Jay Emler at 9:30 A.M. on March 13, 2006 in Room 526-S of the Capitol.

Committee members absent: Senator Marci Francisco- excused
Senator Mark Taddiken- excused
Senator Roger Reitz- excused

Committee staff present: Athena Andaya, Kansas Legislative Research Department
Raney Gilliland, Kansas Legislative Research Department
Bruce Kinzie, Revisor of Statutes' Office
Ann McMorris, Committee Secretary

Conferees appearing before the committee:
Jack Glaves, Duke Energy Field Services, Wichita
Jon Callen, KIOGA, Wichita
Bill McKean, American Pipeline, Wichita
Leo Haynos, Kansas Corporation Commission

Others in attendance: See attached list

Chair continued the hearing on
SB 576 - Gas gathering facilities, regulation of

Opponents

Jack Glaves, Duke Energy Field Services, summarized his remarks by noting that they have difficulty believing that **HB 576** solves any existing problem in the agri-economy, but it injects economic turmoil and uncertainty and inflicts costly regulatory burdens on the 100 or so gas gatherers in Kansas who will be impacted. (Attachment 1)

Jon Callen, president of Edmiston Oil Company, Inc, and current president of Kansas Independent Oil and Gas Association (KIOGA), noted the proposed bill would significantly alter industry's ability to explore for and produce natural gas in Kansas by increasing operating expenses, reducing the reliability of pipelines to purchase and increase liability exposure to consumers. (Attachment 2)

William B. McKean, representing American Pipeline Company and Woolsey Operating Company of Wichita, urged the committee not to impose new regulations on the gas gathering industry. The costs of new regulation outweigh the benefits to the rural end users. (Attachment 3)

Written testimony in opposition was submitted by:

David Bleakley, legislative chairman, eastern Kansas Oil land Gas Association. (Attachment 4)
Robert Dale Bankhead, Pioneer Natural Resources (Attachment 5)
David Bushnell, Gas Business Coordinator for OXY, USA (Attachment 6)
Steve Dillard, Pickrell Drilling Co., Inc. (Attachment 7)
Mike Vess, Vess Oil Company (Attachment 8)

The committee questioned the role of FERC , contracts for easements, regulations governing gas gathering services, costs involved, and KCC control.

Neutral -

Leo Haynos, Chief of Pipeline Safety, Kansas Corporation Commission, had prepared a series of maps of the Southwest Kansas gathering fields. He offered information on a general investigation under docket number 06-GIMG-400-GIG that is examining the facts surrounding the operation of gas gathering systems and the residential and agricultural consumption of gas delivered directly from gas gathering systems. A copy of the KCC report and recommendation is attached to his testimony. He also pointed out that the proposed language in Section 6 and Section 8 appear to be contradictory. (Attachment 9)

CONTINUATION SHEET

MINUTES OF THE Senate Utilities Committee at 9:30 A.M. on March 13, 2006 in Room 526-S of the Capitol.

Written testimony as neutral submitted by:
Gary D. Wise, Aquila (Attachment 10)

The Chair closed the hearing on **SB 576**.

The chairman announced that further discussion on **SB576** will be continued on Tuesday, March 14

Approval of Minutes

Moved by Senator Apple, seconded by Senator Lee, minutes of the meetings of the Senate Utilities Committee held on March 7, 2006 and March 9, 2006 be approved. Motion carried.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary

Attachments - 10

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: MARCH 13, 2006

Name	Representing
Jon M Callen	KIOGA
Leo Haynos	KCC
Matt Touze	KCC
Russ Bishop	Duke Energy
Jack Graves	DEFS
Jere White	KCGA -
Steve Johnson	ONEOK
Ken STANTON	Northern Natural Gas
BOB ALDEN	AQUILA
TOM DAY	KCC
Dick Brewster	BP
Kimberly Lauer	Aquila
Mathy Jann	ONEOK, Inc.
Ken Lauer	Williams
Ron Heri	Oxy & Pioneer
Bill McKeen	

**COMMENTS OF
DUKE ENERGY FIELD SERVICES
ON SB 576
BEFORE THE SENATE COMMITTEE ON UTILITIES
MARCH 9, 2006**

Duke Energy Field Services (DEFS) has over 1,700 miles of gathering pipeline, consisting of many segments that provide gathering service to gas producers in southwest Kansas, at 1,100 receipt points under 376 contracts with Kansas producers.

The pressures, gas quality and volumes vary. Pressures range from -1 psig minimum to 358 psig maximum with an inexorable declining trend. We now have about 400 receipt points where the pressure is 20 psig or less.

The bulk of our facilities were originally part of the Panhandle Eastern Pipe Line interstate system, which were spun off in 1992 into a separate entity as a gathering system for the benefit of producers for the transport of gas from the wellhead to processing plants and transmission lines. That remains our sole function. All of our farm taps, that were granted by reason of right-of-way contracts, were transferred to Aquila's predecessor, a public utility, under KCC jurisdiction, for providing service to end-users. DEFS is not a public utility and has no end-use customers.

It is most difficult to understand what is sought to be accomplished by this Bill. We cannot defy physics. This Bill ignores the unrelenting decline in volume and pressure that can only exacerbate the instability of supply and safety issues in trying to use gas that is filled with impurities, and in some instances, H₂S. Varying pressures require compression in order to offset wellhead pressures that are approaching zero. The use of vacuum pumps is becoming more common, which makes continued production

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inordinately expensive. Our systems were not designed nor intended to be used for end-user service. That is not the business we invested in.

We understand the concern of the southwest Kansas agricultural community over the future for irrigation farming, particularly for high water consuming corn. Given \$2.00 corn, \$8.00 gas, and a falling water table it is no wonder that we had only six requests for new farm taps last year, all of which were granted under right-of-way contract provisions.

Most farmers recognize the limitations inherent in utilizing raw gas from gathering systems with dwindling supply and pressure, and which were only designed to deliver gas from the wellhead to processing plants. At the request of those farmers, the legislature accommodated that recognition by enacting the Rural Kansas Self-Help Gas Act in 2002 (K.S.A. 66-2101 et. seq.). It allows rural gas user built distribution systems to openly compete with certificated public utilities in serving irrigation customers. The benefits are restricted to former users of wellhead gas from gathering facilities.

These non-profit entities, which are free of public utility regulation, have been able to obtain high pressure transmission line gas under various arrangements, with impressive numbers. Grant County irrigation project has over 300 irrigation wells connected; Finney County irrigation project has over 800 irrigation wells connected; Garden City irrigation project has over 200 irrigation wells connected. Typically, the reasons cited for formation of these projects were:

“the majority of the farmers represented in the group were being served by gathering system gas that was characterized by declining gas pressure. The farmers needed a new and more reliable source of natural gas to fuel their irrigation pumps (Garden City Irrigation Project) and, “Irrigators are looking at all types of fuels to power their irrigation motors and do not want to be locked into a long-term commitment. Farming practices will also be important as reduced use of water occurs.”

The right of access under SB 576 for gas from gathering systems is not limited to ag users or restricted in any manner and it would thus dramatically change the nature and economics of our business. It is conceivable that a gas processing plant could have to shut down prematurely if one or more large end-users attached themselves to their gathering systems and diverted the gas away from the plant. This Bill frustrates the nature and purpose of our investment and adversely impacts our future planned investments, particularly for maintaining enough volume to keep operating our processing plant (National Helium) near Liberal, Kansas.

The KCC is currently addressing the subject matter of SB 576. The gas supply aspect of the Commission's "working group" ² resulted in the Commission opening a docket entitled,

"In the Matter of the General Investigation to Determine a Commission Policy Regarding Customers Served Directly or Indirectly by Gas Gathering Systems" (Docket No. 06-GIMG-400-GIG).

The Commission Staff filed its Report and Recommendation, dated January 27, 2006, which submitted the following recommendation for the Commission's consideration:

1. "The provision of exit taps on a gathering system should be left to the discretion of the gathering system operator. Commission involvement should be limited to the effect an exit tap may have on gas gathering services. Staff believes gas gathering services do not include delivery of gas to end use customers and the practice of using the system for this purpose must necessarily remain secondary to the primary function of gathering gas i.e. moving the gas from the producer to the transmission line. Open access for exit taps would eventually result in reconfiguration of the system that would be costly to the producer and ultimately lead to an early abandonment of the production reservoir. Excessive exit taps would also diminish the amount of gas that is delivered to gas plants for processing. When turndown limits of a plant are met, the plant must shut down, reconfigure its operation, or deliver the gas to another source. This

would obviously be an additional cost required from the gatherer and the producer in order to continue delivering gas to markets other than exit taps.”

These comments are squarely on point and embody our reason for opposing SB 576.

This proceeding is ongoing and is currently open to responsive comments to Staff's position. The timing of this Bill is problematic. We suggest that the Commission should be permitted to perform its function without hindrance. There are glaring legal issues, including Section 7. that appears to authorize the Commission to amend existing contract obligations between us and a complainant and myriad other issues arising from totally changing the nature of our business, requiring us to be in a business we do not desire to be in.

This Bill calls for a whole new function for the KCC; investigating and potential rate and service determination for “non utility” gas distribution off of gathering facilities. It is regulation that has not previously existed. We assume a fiscal note will be required. What is the cost, who pays for it and what is accomplished? It seems a needless boondoggle.

Frankly, we have difficulty believing that this Bill solves any existing problem in the agri-economy, but it injects economic turmoil and uncertainty and inflicts costly regulatory burdens on the over 100 licensed gas gatherers in Kansas who will be impacted by this Bill (see Exhibit A). Many of those firms are probably unaware of this legislation. There has to be a significant cost from added regulation to these companies doing business in Kansas.

We urge that, at the least, consideration of this Bill be deferred until the KCC has had an opportunity to complete its mission and a thorough airing of all of the issues

involved has been achieved.

Respectfully Submitted:

Jack Glaves
Glaves, Irby and Rhoads
120 S. Market, Suite 100
Wichita, KS 67202
316-262-5181

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ADDENDUM TO COMMENTS BY
DUKE ENERGY FIELD SERVICES
ON SENATE BILL 576
BY JACK GLAVES

The spin off of gathering facilities from the interstate systems is hardly a recent event. It occurred 15 years ago, when FERC determined (Order 636) that all of the services offered by the interstate pipelines from wellhead to distributors should be unbundled in order to encourage competition in the providing of those services, enabling producers to shop for and only pay for the services needed.

Actually, FERC jurisdiction never extended to farm tap sales; only to sales for resale.

In 1992 Panhandle Eastern obtained KCC approval to transfer its 750 Kansas farm taps to Peoples Natural Gas (Aquila's predecessor) to provide public utility service and assume our right-of-way obligation, since Panhandle was no longer in the merchant business and was restricted to providing gas transportation only. This led to the spin off of the gathering facilities now owned by DEFS.

No change in providing that service has occurred and none is contemplated. We continue to provide taps under our right-of-way contracts with Aquila providing the utility service.

Our concern centers on the proponents' expressed reason for this Bill, to "expand the potential customers ... served from gathering lines", even mentioning cotton gins and ethanol plants, which would require huge volumes of gas diverted from our system to our detriment as well as to that of our producers and royalty owners. The liquids would be lost for processing, imperiling the future operation of our Liberal plant.

The impression is left that gas gathering systems are the only viable source of power for southwest Kansas. I attended the KCC meetings in Liberal last summer and although there may be latent suspicion of gas suppliers using the sour gas issue as an excuse for terminating existing service off of gathering systems, I really did not detect any pent up demand for new service off of gathering systems, particularly given the current economics of irrigating water thirsty corn with very expensive gas. The anecdotal evidence of such demand is simply missing.

Indeed the southwest Kansas buzz centers on huge new cotton warehouses in Liberal, planned ethanol plants at Liberal and Garden City and the tremendous expansion of the Sunflower coal-fired Electric plant at Holcomb. Pioneer Electric, a Sunflower member, is offering special irrigation rates; all of which portends alternate irrigation power and, hopefully, lessened water usage in recognition of the mining of the Ogallala aquifer. It is not just the Hugoton gas field that is being mined. That mining caused me to drill a new water well last year, south of Garden City.

The “unequal treatment” or discrimination between rural and urban customers is fallacious. Comparing customers served by public utilities receiving gas from high-pressure transmission lines delivered through public utility distribution systems, with all the added costs incident to such facilities, with receiving raw gas off of low-pressure gathering lines at wellhead prices well never be comparable in either service or cost.

Rural users have to decide whether they want reliable, safe natural gas service or an alternate power source. It is becoming more evident, with the decline in volume and pressure, that that type of service is not available from gathering systems, with or without Senate Bill 576.

That is what gave rise to the 2002 legislation, the “Self Help Gas Act”. The legislation last year (HB 2530) should allay concerns over using health and safety reasons for cutting off existing service.

In all, it seems that we should step back, take a deep breath, let the KCC pursue its mission, hope that the cotton gins and ethanol plants get built, that we lessen the mining of water with less thirsty crops and that new demands for power be met by natural gas and electric public utilities that are certificated to provide that service under KCC jurisdiction. Let us continue to provide our mundane gathering service to the benefit of the producers and our existing farm taps.

We want southwest Kansas to prosper and we want to continue to be a part of that economy.

Submitted by:

Jack Glaves

Exhibit A

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ACTIVE GAS GATHERERS

<i>License</i>	<i>Company Name</i>	<i>Address</i>		<i>Phone</i>	
3911	Rama Operating Co., Inc.	101 S. Main		Stafford	KS 67578 (620) 234-5191
4058	American Warrior, Inc.	PO Box 399		Garden City	KS 67846 (620) 275-7461
4419	Bear Petroleum, Inc.	PO Box 438		Haysville	KS 67060 (316) 524-1225
4448	Perkins Oil Enterprises, Inc.	PO Box 707		Howard	KS 67349 (620) 374-2133
4824	Pioneer Natural Resources USA, Inc.	5205 N. O'Connor Blvd.		Irving	TX 75039 3746 (972) 444-9001
4894	Horseshoe Operating, Inc.	110 W. Louisiana, Suite 200		Midland	TX 79701 (432) 682-4584
5044	White Pine Petroleum Corporation	110 S. Main St., Suite 500		Wichita	KS 67202 3745 (316) 262-5429
5047	Rupe Oil Company, Inc.	111 Whittier #1000	PO Box 783010	Wichita	KS 67278 3010 (316) 689-3520
5062	Shaw, George R.	1001 Commerce Bank Center	150 N. Main	Wichita	KS 67202 (316) 267-0382
5123	Pickrell Drilling Company, Inc.	100 South Main - Suite 505		Wichita	KS 67202 3738 (316) 262-8427
5150	Colt Energy Inc	P.O. Box 388		Iola	KS 66749 (620) 365-3111
5192	Shawmar Oil & Gas Co., Inc.	1116 E Main	PO Box 9	Marion	KS 66861 0009 (620) 382-2932
5363	Berexco, Inc.	PO Box 20380		Wichita	KS 67208 (316) 265-3311
5399	American Energies Corporation	155 N. Market, Ste 710		Wichita	KS 67202 (316) 263-5785
5447	Oxy USA, Inc.	5 E. Greenway Plz	PO Box 27570	Houston	TX 77227 7570 (713) 215-7000
5602	N & B Enterprises, Inc.	PO Box 812		Chanute	KS 66720 0812 (620) 431-6424
5707	Inter-American Energy Corp.	260 Adelaide St. E.-	PO Box 1	Toronto, Canada	M5A 1N1 (416) 522-9985
5817	Benson Mineral Group, Inc.	1560 Broadway, Ste 1900		Denver	CO 80202 6000 (303) 863-3500
6914	Oil Gas Management, Inc.	PO Box 411121		Kansas City	MO 64141 1121 (816) 471-0606

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<i>License</i>	<i>Company Name</i>	<i>Address</i>	<i>Phone</i>
8061	Oil Producers Inc. of Kansas	1710 Waterfront Parkway	Wichita KS 67206 (316) 682-3022
9232	Timberline Oil & Gas Corporation	4000 Penrose Place	Rapid City SD 57702 (605) 341-3400
9408	Trans Pacific Oil Corporation	100 South Main Ste 200	Wichita KS 67202 (316) 262-3596
9470	Sublette Enterprises, Inc.	PO Box 917	Sublette KS 67877 (620) 668-5501
30031	Ellsworth Systems, Inc.	Union Center Building 150 N Main St. #922	Wichita KS 67202 1317 (316) 265-8844
30146	Mach Petroleum, Inc.	PO Box 35583	Tulsa OK 74133 (918) 496-0442
30163	Great Plains Petroleum, Inc.	221 Circle Drive	Wichita KS 67218 (316) 685-8800
30253	Cyclone Petroleum, Incorporated	7030-C S. Lewis St., Ste 541	Tulsa OK 74136 (918) 291-3200
30282	Lobo Production, Inc	6715 Road 22	Goodland KS 67735 (785) 899-5684
30590	Mapleton Gas Pipeline, Inc.	PO Box 15	Mapleton KS 66754 (620) 743-4161
30743	Brennco Gas Transmission, Inc.	PO Box 13394	Overland Park KS 66282 (913) 492-8410
30916	Bridwell, Kayla & Gary	RR 3, Box 345	Independence KS 67301 (620) 331-0194
31191	R & B Oil & Gas, Inc.	904 N. Logan PO Box 195	Attica KS 67009 (620) 254-7972
31491	Einsel Gas Marketing, LLC	7570 W 21st St N, Ste 1010-D	Wichita KS 67205 1734 (316) 773-2266
31609	Priority Oil & Gas LLC	PO Box 27798	Denver CO 80227 0798 (303) 296-3435
31888	C & J Pumping, Inc.	PO Box 158	Sylvia KS 67581 (620) 486-3455
31947	Anadarko Gathering Co.	1201 Lake Robbins Drive	The Woodlands TX 77380 (832) 636-3130
31958	Hesse Petroleum Co., L.L.C.	400 N. Woodlawn, Suite 7	Wichita KS 67208 (316) 685-4746
32019	American Pipeline Company, L.L.C.	125 N. Market Street, STE 100	Wichita KS 67202 (316) 267-4379
32020	Clarco Gas Co., Inc.	414 Plaza Drive STE 204	Westmont IL 60559 (630) 655-2209
32053	A.I.R. Pipeline Corporation	PO Box 782523	Wichita KS 67278 (316) 262-3596

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<i>License</i>	<i>Company Name</i>	<i>Address</i>			<i>Phone</i>
32064	Monument Resources, Inc.	PO Box 1450	Castle Rock	CO 80104	(303) 688-3993
32082	Prairie Pipeline, LLC	9431 East Central	Wichita	KS 67206	(316) 684-8481
32109	Dakota Production Co., Inc.	Rt 2, Box 255	Neodesha	KS 66757	(972) 567-0569
32144	OKKAN Gas Co.	1551 N. Waterfront Parkway, S	Wichita	KS 67206	(316) 269-3424
32156	Timberland Gath & Proc Co. Inc.	810 Houston St., STE 2000	Fort Worth	TX 76102 6298	(817) 870-2800
32187	Southwind Exploration, LLC	1013 S. Allen Ave.	Chanute	KS 66720	(620) 431-2882
32192	Pride Energy Company, a General Partnership	Box 701950	Tulsa	OK 74170	(918) 524-9200
32195	Grant Gathering Company	501 Westlake Park Blvd-Room	Houston	TX 77079	(281) 366-7797
32278	Tengasco, Inc.	603 Main Ave., STE 500	Knoxville	TN 37902	(865) 523-1124
32302	Key Gas Corp.	155 N. Market - Suite 900	Wichita	KS 67202	(316) 662-6977
32304	Lumen Energy Corporation	20 E 5th St., STE 1300	Tulsa	OK 74103 4462	(918) 584-0052
32334	Chesapeake Operating, Inc.	PO Box 18496 6200 N Western Ave.	Oklahoma City	OK 73154 0496	(405) 848-8000
32337	Akawa Natural Gas, LLC	24850 Farley	Bucyrus	KS 66013	(913) 663-0118
32447	Joel Associates Inc.	1999 Amidon, Ste 375	Wichita	KS 67203	(316) 265-2555
32458	Angell Pipeline, LLC	PO Box 721436	Norman	OK 73070	(405) 321-7171
32486	Riley Resources, Inc.	6908 NW 112th	Oklahoma City	OK 73162	(405) 722-5511
32496	Seminole Gas Company, L.L.C.	1323 E 71st St. - Suite 300	Tulsa	OK 74136	(918) 492-2840
32581	EXCO Resources, Inc.	12377 Merit Drive, Ste 1700, L	Dallas	TX 67251	(214) 368-2084
32601	Haven Natural Gas, LP	PO Box 2325	Hutchinson	KS 67504 2325	(620) 465-2337
32608	ONEOK Field Services Company	100 W Fifth Street, Suite 16-1	Tulsa	OK 74103 4298	(918) 588-7554
32654	Jones Gas Corporation	PO Box 970	Wichita	KS 67201 0970	(316) 262-5503

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<i>License</i>	<i>Company Name</i>	<i>Address</i>		<i>Phone</i>	
32704	Eagle Pipeline, Inc.	3315 Russell Rd., Suite 200		Las Vegas	NV 89620 (702) 434-2311
32730	Four Star Oil & Gas Company	PO Box 36366		Houston	TX 77236 (213) 561-3602
32752	Prafford Gas System, LC	PO Box 48788		Wichita	KS 67201 8788 (316) 267-4214
32756	Double 7 Oil and Gas LLC	21003 Wallace Rd		Parsons	KS 67357 (620) 423-0951
32782	Duke Energy Field Services, LP	370 17th St., Ste. 2500		Denver	CO 80202 (303) 595-3331
32786	Guardian Energy Consultants, Inc.	403 S. Cheyenne Suite 403		Tulsa	OK 74103 (918) 599-9327
32787	Kansas Natural Gas Operating, Inc.	PO Box 818	1200 Main Street	Hays	KS 67601 (785) 625-7353
32797	Englewood Corporation	PO Box 8206		Wichita Falls	TX 76307 8206 (940) 716-5100
32825	Pioneer Exploration, Ltd.	15603 Kuykendahl, Suite 200		Houston	TX 77090 (281) 893-9400
32832	Petrohawk Operating Company	1100 Louisiana Street, Suite 4		Houston	TX 77002 (832) 204-2700
33002	Westport Oil and Gas Company LP	5735 Pineland, Suite 300		Dallas	TX 75231 (214) 692-1800
33073	Cherokee Basin Pipeline LLC	600 Dart Rd.	PO Box 177	Mason	MI 48854 0177 (517) 244-8716
33091	Western Gas Resources, Inc.	1099 18th - Suite 1200		Denver	CO 80234 3439 (303) 452-5603
33098	Acme Energy Services, Inc.	110 N. Marienfeld, Suite 200		Midland	TX 79701 (432) 687-1575
33178	American Energies Gas Service, LLC	155 North Market, Suite 710		Wichita	KS 67202 (316) 263-5785
33179	American Energies Pipeline, LLC	155 North Market, Suite 710		Wichita	KS 67202 (316) 263-5785
33188	Midcoast Holdings No. One, LLC	1100 Louisiana, Suite 3300		Houston	TX 77002 (213) 650-8900
33202	West Wichita Gas Gathering, LLC	20 E. 5th, Suite 1300		Tulsa	OK 74103 (918) 584-0052
33203	WGP-KHC, LLC	9450 Grogan's Mill Rd, Suite 1		The Woodlands	TX 77380 (281) 367-7060
33221	Roxanna Pipeline, Inc.	4600 Greenville Ave., Suite 20		Dallas	TX 75206 (214) 691-6216
33242	Regency Midcon Gas LLC	1700 Pacific, Suite 2900		Dallas	TX 75201 (214) 750-1771

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<i>License</i>	<i>Company Name</i>	<i>Address</i>	<i>Phone</i>
33243	Dorchester Minerals Operating LP	3838 Oak Lawn Avenue - Suite	Dallas TX 75219 4541 (214) 559-0300
33247	Petrol Oil & Gas, Inc.	3161 E Warm Springs Road, S	Las Vegas NV 89120 (702) 454-7318
33261	Brower Oil & Gas Co., Inc.	6506 S. Lewis Ave., Ste 115	Tulsa OK 74136 (918) 743-8893
33294	Western Gas Resources-Westana, Inc.	1099 18th Street, Suite 1200	Denver CO 80202 (303) 452-5603
33325	Petroleum Development Corporation	103 E Main St. P.O. Box 26	Bridgeport WV 26330 (304) 842-6256
33343	Bluestem Pipeline, LLC	9520 North May Ave., Suite 30	Oklahoma City OK 73120 (405) 488-1304
33419	Layne Energy Sycamore Pipeline LLC	1900 Shawnee Mission Parkw	Mission Woods KS 66205 (913) 748-3987
33468	KG System Limited Partnership	1250 NE Loop 410, Suite 1100	San Antonio TX 78209 (210) 826-0700
33479	Branch Systems, Inc.	2711 N. Haskell, Su 2800, LB	Dallas TX 75204 (214) 756-6600
33499	Cherryvale Pipeline, LLC	1900 Shawnee Mission Parkw	Mission Woods KS 66205 (913) 362-0510
33516	Kansas Processing EQR, LLC	15425 North Freeway, Suite 23	Houston TX 77090 (281) 875-6200
33535	Syntroleum Gas Processing, LLC	4322 S. 49th West Ave.	Tulsa OK 74107 (918) 592-7900
33563	Big Creek Field Services, LLC	1605 E. 56th Ave.	Hutchinson KS 67502 (620) 664-9622
33584	SemKan, LLC	Two Warren Place, Suite 700 6120 South Yale Avenue	Tulsa OK 74136 (918) 388-8100
33612	Geist, Ron dba Wildcat Well Service	PO Box 961	Hays KS 67601 (785) 728-2040
33647	SemGas Gathering LLC	Warren Place, Suite 700	Tulsa OK 74136 (918) 388-8100
33655	Pawnee Western, LLC	4300 South Dahlia Street	Englewood CO 80113 6101 (303) 220-9914
33673	Southeastern Kansas Pipeline and Transmission Co., LLC	1300 Humble	Fort Worth TX 76107 (817) 980-0876

EDMISTON OIL COMPANY, INC.

OIL OPERATORS
125 N MARKET SUITE 1130
WICHITA, KANSAS 67202-1774

E. K. EDMISTON (1906-1995)
JON M. CALLEN, *President*

(316) 265-5241
FAX (316) 265-7301

Testimony for public hearing on SB 576 Before the Committee on Utilities Kansas Senate March 9, 2006

Testimony presented by: Jon M Callen
Edmiston Oil Company, Inc.
125 N. Market Suite 1130
Wichita, KS 67202
316-265-5241
316-265-7301 Fax

My name is Jon Callen. I am the current president of the Kansas Independent Oil and Gas Association and president of Edmiston Oil Company, Inc., a small, family owned oil and gas producer in Kansas. The roots of our company date back to 1945. I have been involved in the decision making process for our company since 1986.

On behalf of both the Kansas Independent Oil and Gas Association and my company, I wish to voice my opposition to SB 576 relating to opening gas gathering systems up as common carriers for consumers. The burden this would place on small, independent producers such our company could threaten our very existence, even in these times of elevated gas prices.

There is a significant difference between collecting gas from wells into a pipeline versus delivering gas to consumers out of a pipeline. On the collection side, gas is flowing from its raw state and may not be suitable for commercial sales or household use without some conditioning or enhancement. The expense of conditioning raw gas for resale is such that it is generally done at a central location further down the line than at the wellhead.

In addition, there is no guarantee of the volume of gas in the line on the collection side. There are many areas of Kansas where there are relatively few gas wells connected to a gathering line. Should one or more of those wells go down for some reason, gas in the pipeline could soon stop flowing. A consumer connected to such a line would then be without gas during the shut-in periods. If the consumers were residences relying on gas for home heating, they could be faced with having no gas at a critical times in winter. Residential consumers tapped into such a gathering system would reduce producers flexibility to operate their wells for their own benefit versus providing gas for consumers.

Pipeline requirements for producers to condition their gas before delivery are limited in nature compared to what is required when delivering gas to consumers. Gas delivery systems to consumers must live with a host of Federal and State rules regarding the maintenance of gas Btu,

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odorizing, H₂S monitoring, pressure regulation, dehydration and other conditioning that is not required of producers of gas in its natural state.

SB 576 could potentially make every pipeline system in the state of Kansas, and thus every producer of natural gas, a public utility that would have to follow federal and state utility guidelines. Opening all gathering lines for consumer activity will significantly add to the overhead cost of running and maintaining a pipeline. These costs include attaining safety standards for public consumption described above, plus metering and billing expenses just to name a few.

Notwithstanding the safety issues previously described, consumer taps along gathering systems will ultimately reduce the price received for gas sold on a system, thus reducing incentives for exploration for new gas sources. Fixed costs for gathering systems can no longer be passed along to the buyers of gas in today's deregulated world as they once were. Those fixed costs are now being pushed back to the producers. Reducing the volume of flow through a pipeline increases the cost per unit to recover the fixed cost of the gatherer's investment. Those cost increases will lower the price paid for the gas on a system, reducing incentives for producers to further explore for gas along gathering lines. Additionally, there is the distinct possibility that a significant number of consumer taps on a gathering system would render the system unreliable for producers which would lead to the premature abandonment of gas wells along the system.

Kansas independent producers believe that Kansas gas is good for Kansas consumers and the Kansas economy. We succeed when we are able to provide stable gas production that can benefit agricultural, commercial, or residential enterprise with reliability. The proposed bill would significantly alter industry's ability to explore for and produce natural gas in our state by increasing operating expenses, reducing the reliability of pipelines to purchase our gas and increasing our liability exposure to consumers.

In conclusion, I repeat the opposition of the Kansas Independent Oil and Gas Association and Edmiston Oil Company, Inc., to SB 576 and ask that the bill be defeated.

Respectfully submitted,

Jon M. Callen

STATEMENT OF WILLIAM B. McKEAN
MANAGER OF BUSINESS DEVELOPMENT, representing
AMERICAN PIPELINE COMPANY, L.L.C. and
WOOLSEY OPERATING COMPANY, LLC

Before the Senate Utilities Committee
March 9, 2006

Re: Senate Bill No. 576

I am Bill McKean, representing Woolsey Operating Company, an oil and gas producer and operator in Wichita, Kansas, and its affiliated company, American Pipeline Company, a gas gathering and processing company with lines and a plant located near Medicine Lodge in Barber County, Kansas. Woolsey has been engaged in the production of oil and gas in Kansas for the past 35 years. As both a producer and gas gatherer serving other producers, we appreciate the opportunity to explain why we oppose Senate Bill 576.

In 1997 American Pipeline became the first gathering system in Kansas to successfully apply for unregulated status. Since its inception, the primary function of our system has been to efficiently gather and process gas to insure access to a competitive market. We have no desire and are not capable of assuming utility service obligation to transport or supply gas to small end users.

Under the proposed language of Senate Bill 576, any entity or person seeking to transport or purchase of natural gas, may request the Kansas Corporation Commission to intervene to gain an interconnection any where on a gathering system. The Bill does not set minimum or maximum limits on volumes or require that the applicant to ship or consume the unprocessed gas on a uniform basis throughout the year.

Kansas production is primarily low volume, stripper type production. We purchased the system and built the processing plant to efficiently operate the system in a manner to maximize the economic interest for our own wells and the other gas producers' wells. We minimize leaks and system pressures to increase everyone's gas production. We captured excellent commodity prices in a competitive unregulated gas market by making long-term supply commitments to two large gas marketing companies. If you require our company to serve irrigators or other rural users, system line pressures must be increased and will fluctuate due to the inconsistent consumption by end users due to seasonality and weather. Gas production from marginal wells will decrease or terminate. We will be unable to secure premium market prices from large energy marketing companies because we will not supply fixed volumes of processed gas into the Kansas Gas utility system. The additional end user taps could result in costly reconfiguration of the gathering system increasing operating costs also causing premature abandonment of wells and our gas plant. Senate Bill 576 will cause the royalty owners and producers to bear an unfair economic loss. The counties and

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State of Kansas will collect lower ad valorem and severance taxes.

The Bill requires the gathering system operator to provide utility services to two different types of customers with opposite expectations. The obligation to maintain higher line pressure for the end user inherently conflicts with the obligation to provide low system pressure for the producer. We are very concerned that the Bill would create for the Kansas Corporation Commission a crowded docket of conflicting complaints from customers and producers. We doubt that neither KCC nor the end user will have the expertise or the ability to conduct system modeling studies to rebut the gathering system operator's claim that a specific rural end user should not be allowed to ship or consume unprocessed gas at certain points on the system.

We also have safety concerns for the end users because raw gas supplied from our wells can be unpredictable and can contain undesirable impurities such as Hydrogen Sulfide. Even if a well is currently producing sweet gas, Hydrogen Sulfide can suddenly be produced in toxic levels.

As a small gas gathering company, we currently do not sell unprocessed gas to any end users. Currently we invoice two gas marketing companies who purchase our gas and invoice two shippers who transport gas. We do not have the infrastructure to maintain & read utility meters and prepare invoices or collect from many end users subject to cash flow problems. However our Company firmly believes that a deregulated market provides the most economic efficiencies for the State of Kansas because it encourages suppliers, end users and services companies to enter into mutually beneficial contracts. For instance our Company would welcome the opportunity to sell unregulated processed gas from the tailgate of our plant to any credit-worthy end user that will consume gas on a consistent basis during a twelve month period.

We urge you not to impose new regulations on our industry because it will place the gathering system operator in a no-win situation trying to serve the conflicting expectations of the end users and the other producers. It will hurt the economic interests of our current investors in the wells that we operate and will potentially require the Kansas Corporation Commission to adjudicate hundreds of complaints by rural end users that are based solely on the validity of the system operator's claims about line pressure and volume data on a specific segment of pipe. The costs of the new regulation outweigh the benefits to the rural end users.

Respectfully submitted,

American Pipeline Company, L.L.C.
Woolsey Operating Company, LLC

**SENATE UTILITY COMMITTEE
MARCH 9, 2006**

RE: HB 576 - An Act concerning Natural Gas; relating to gas gathering facilities amending K.S.A 55-1,101, 55-1,102, 55-1,103, 55-1,104, 55-1,107, 55-1,108 and 55-1,109 and K.S.A. 2005 Supp. 66-105a and repealing the existing sections laid out in SB 576.

Testimony of David Bleakley - Legislative Chairman
Eastern Kansas Oil and Gas Association
&
Director of Acquisitions & Land Management
Colt Energy, Inc.

The Eastern Kansas Oil and Gas Association (EKOGA) strongly opposes amending K.S.A 55-1,101, 55-1,102, 55-1,103, 55-1,104, 55-1,107, 55-1,108 and 55-1,109 and K.S.A. 2005 Supp. 66-105a and repealing the existing sections laid out in SB 576.

Our association represents and supports eastern Kansas oil and gas producers, service companies, royalty owners and associated businesses along with the overall welfare of the Kansas oil and gas industry in this state.

BACK GROUND

Eastern Kansas and in particular Southeastern Kansas has been experiencing a boom in shallow gas production thru the major development of coalbed methane gas (CBM) over the last eight years. Several hundred miles of new gas gathering pipeline has been installed to bring this gas to market. This gas production has generated millions of dollars in severance tax and conservation fee fund tax going to the state general fund and the Kansas Corporation Commission, not to mention the millions of dollars the counties have derived from the new personal property taxes being assessed on all of these new wells, pipelines and assets. Numerous Gas Companies collectively have invested several hundred million dollars to bring this boom to fruition. Most of these companies have drilled their own wells in one company, operated their wells in another and have an affiliate company build the gas gathering systems and compression to move their gas to the market. Some of the companies gather third party gas, but none of them consider themselves a public Utility and what's more they don't want to be.

OPPOSING POINTS

1. No gas gatherer should be forced by legislation to open up their lines to anyone who desires a tap and cheap natural gas or to transport gas for other companies. Both of these business decisions should be left up to private negotiations between both parties, if it makes since it will happen, if it doesn't it won't.

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2. Most gas gatherers are not Public Utilities and don't want to be because they were organize to drill, develop, produce and gather gas to deliver into major pipelines not distribute gas to individuals.
3. The cost to be forced to switch over form a gas gatherer to a Public Utility would be astronomical with the additional manpower required, 24 hour service, additional State and Federal rules and regs, liability to service individuals, insurance cost and additional safety concerns to mention a few.
4. This bill would not encourage the drilling, development and new pipelines being laid to bring this gas to market and we believe would actually discourage and make companies rethink their investing in gas in Kansas that has been such a windfall for the state and counties.

CONCLUSION

Therefore, Mr. Chairman and members of this Committee, **EKOGA WOULD STRONGLY URGE YOU TO VOTE AGAINST HB 576** and let the gas gatherers remain private instead of forcing them to become Public Utilities.

Thank you for your time.

David P. Bleakley



PIONEER
NATURAL RESOURCES COMPANY

Written Testimony re: SB 576
Senate Utilities Committee
Submitted by Robert Dale Bankhead
on behalf of
Pioneer Natural Resources U.S.A., Inc.
March 9, 2006

Mr. Chairman, Members of the Committee:

My name is Robert Dale Bankhead, and I am the Operations Engineering Manager for the Mid-Continent Division for Pioneer Natural Resources USA, Inc. Pioneer is one of the largest independent exploration and production oil and gas companies in North America and is a major natural gas producer in the Hugoton field in Southwest Kansas.

An essential part of Pioneer's operations includes the ownership and operation of a gas gathering system. The gas gathering system transports gas from the wellhead to the processing plant and interstate and intrastate pipelines.

Pioneer opposes SB 576.

The current law establishes a regulatory framework to assure that Kansas producers have the ability to connect their wells to a gas gathering system so they can get their gas to market. It appears the intent of SB 576 is to amend the current statutes so as to add a requirement that gas gathering companies in Kansas also provide open access transportation services to end use customers on their gas gathering systems.

Historically, Pioneer and other gas gathering companies and producers have attempted to accommodate and allow oil and gas lessors, right-of way easement providers and irrigation farmers to have access to natural gas supplies transported through their gas gathering systems. Given the maturity of the natural gas fields connected to the gathering systems, the necessity of operating gathering systems on vacuum and at very low pressures to accommodate producers with depleting gas reserves and the increasing problems with high concentrations of H₂S due to the depletion and age of the natural gas fields, it is simply no longer practical and it is contrary to public policy to pass legislation that promotes open access transportation services to end users on gas gathering systems that clearly, for the most part, are not in a position to provide reliable and safe service to end use customers.

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In fact, this legislation is contrary to and goes against the recent trend of moving end use customers off of gas gathering systems that can no longer provide safe and reliable service, for the various reasons I just stated, over to systems that can provide safe and reliable pipeline quality natural gas.

This legislature should continue its efforts to promote programs such as rural natural gas cooperatives, where groups of natural gas users can combine efforts to construct their own pipeline systems to connect to suppliers of pipeline quality gas to replace the less reliable and increasingly unsafe natural gas transported through gas gathering systems. This legislature should not adopt legislation that requires gas gathering companies to connect end users to systems that are no longer able to provide safe and reliable service to those end-users.

Pioneer, like other operators in the Hugoton Field, is dealing with declining volumes in the field. This is attributed to the natural decline as reserves are depleted. As this field approaches depletion, gathering becomes a more critical operation. A system that was once used primarily for gathering gas (and secondarily for allowing lessors, right of way easement owners and irrigators to use gas off of the system), can no longer physically handle both functions. Pioneer certainly can't abandon the gathering function on its system.

In late 2004 and early 2005, Pioneer Natural Resources notified irrigators receiving gas from our gathering system that Pioneer would no longer be a gas supplier. Pioneer indicated to them that it no longer could provide reliable and in some cases safe service to these customers. Pioneer realizes that as the Hugoton Field nears depletion, it is absolutely essential to maintain the lowest possible pressures throughout the gathering system. These pressures are now at or below atmospheric pressure and it is no longer economical to provide service to end use customers.

Again, we would recommend that SB 576 either be reported adversely, or that the committee take no action on this legislation.

Thank you very much for permitting Pioneer to submit written testimony.



Robert Dale Bankhead



OXY USA Inc.
A Subsidiary of Occidental Petroleum Corporation

5 Greenway Plaza, Suite 110, Houston, Texas 77046
P. O. Box 27757, Houston, Texas 77227-7757
Phone 713.215-7000

Written Testimony re: SB 576
Senate Utilities Committee
Submitted by David L. Bushnell
on behalf of
OXY USA Inc.
March 9, 2006

Mr. Chairman, Members of the Committee:

My name is David L. Bushnell, and I am a Gas Business Coordinator for OXY USA Inc. ("OXY"), a subsidiary of Occidental Petroleum Corporation, a major global oil and gas producer. As part of its large domestic oil and gas operations, OXY has significant, long-lived natural gas production in the Hugoton Field and other gas fields in Southwest Kansas. OXY also owns and operates four gathering systems in the Hugoton Field that transport primarily OXY produced gas.

OXY has reviewed the merits of SB 576 primarily from a technical perspective, and based on the concerns of our engineering staff, OXY must oppose this bill for a number of reasons.

GATHERING SYSTEM OPERATIONS

Gas gathering systems were designed to gather and transport gas from wellheads to downstream delivery points (transmission interconnects). As such, the systems were not designed to accept deliveries from the transmission system for delivery to a customer connected to the gathering system, as appears to be required under the language of SB 576.

With the continuing decline in reservoir pressures in the Hugoton, Panoma and Greenwood Fields in Southwest Kansas, the operating conditions of the gathering systems have and continue to change. In order to maximize reservoir value to producers, royalty owners and the State of Kansas, gathering systems are operated at the lowest pressures possible. There are some systems that even operate under vacuum conditions. Given these narrow and limited operating parameters, it is technically impractical to force gathering system operators to provide a gas delivery service from their gathering systems.

GAS QUALITY

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Gas quality can vary significantly on a gathering system and/or from gathering system to gathering system based on the quality requirements of the gathering system owner and the quality of the gas produced from wells connected to the system. Based on the economics of producing small volume wells, it will become more common to treat non-transmission specification gas at centralized locations on gathering systems compared to treating at the wellhead, as is common practice today. Additionally, the water saturation of gas in the above mentioned low-pressure fields continues to increase as reservoir pressures continue their decline. Since the quality of gas delivered to customers on gathering systems is not uniform and can vary from day to day, gathering system owners should not be required to deliver gas to unsolicited customers with some actual or implied obligation to assure quality to these end users.

Based on the foregoing, OXY recommends that SB 576 either be reported adversely, or that the committee takes no action on this legislation.

Thank you very much for the opportunity to submit written testimony in this matter.

Respectfully submitted,
OXY USA INC.

A handwritten signature in cursive script that reads "David L. Bushnell".

David L. Bushnell

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From: "Steve Dillard" <SDillard@pickrelldrlg.com>
To: <emler@senate.state.ks.us>
Date: 3/8/2006 2:42:22 PM
Subject: SB 576

Senator Emler,

I am Vice President of Pickrell Drilling Company, Inc. in Wichita and Natural Gas Committee Chairman for KIOGA. The Senate Committee on Utilities will hear testimony tomorrow concerning SB No. 576. I am opposed to this proposed legislation. This bill if enacted could add expenses to gatherers that would ultimately be charged to producers in increased gathering fees. Further, this bill if passed could require producers to make their gas marketable on the gathering system before it reaches a processing plant, dehydration unit or compressor. This is something that could cause Kansas gas to be shut-in or curtailed because wellhead gas quality is not marketable at the wellhead. While I strongly believe that Kansas gas is good for Kansas consumers whether they be agricultural, industrial, or residential, this is not good legislation for Kansas. If gatherers want to make taps for consumers, I support that. However, if a gatherer is compelled to provide a tap and provide sales to a consumer there are likely to be consequences to producers.

Steve M. Dillard

Steve M. Dillard, Vice-President
Pickrell Drilling Company, Inc.
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Wichita, KS 67202
316-262-8427
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From: "JM Vess" <jmvess@vessoil.com>
To: <emler@senate.state.ks.us>, <apple@senate.state.ks.us>, <francisco@senate.state.ks.us>, <lee@senate.state.ks.us>, <peterson@senate.state.ks.us>
Date: 3/8/2006 5:57:07 PM
Subject: SB 576

Dear Senators,

Some of you know me and I do not make a habit of contacting you on every bill that moves through the Senate or your committee, but in this case I would like to register my opposition to Senate Bill 576. This bill would create undue risk and exposure to producers while creating a potentially dangerous situation for consumers. If producers were required to bring gathering lines up to the necessary standards for safe consumer delivery in many cases the only option would be to shut the wells in. In most cases it is not economically feasible to convert a gathering line into a delivery line. Please do not support Senate Bill 576. Thank you.

Mike Vess
Vess Oil Corporation
316-682-1537

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KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR
BRIAN J. MOLINE, CHAIR
ROBERT E. KREHBIEL, COMMISSIONER
MICHAEL C. MOFFET, COMMISSIONER

Before the Senate Utilities Committee
Comments by the
Staff of the Kansas Corporation Commission
March 9, 2006
Senate Bill 576

Thank you Mr. Chair and members of the Committee. I am Leo Haynos, Chief of Pipeline Safety for the Kansas Corporation Commission and I am appearing today on behalf of the KCC Staff. In my testimony today, I would like to address the fiscal impact of the proposed bill as well as provide some background of the current proceedings before the Commission directly related to this bill.

Under SB 576, The Commission would be given limited jurisdiction over gas transportation on a gathering system and limited jurisdiction over the right of access to interconnections on a gathering system. The jurisdiction conferred on the KCC would consist of the ability of the Commission to review any practices related to offering gas gathering services, transportation services, or access to the facilities and to determine if the practices are discriminatory or unduly preferential. Currently, the statute only gives the Commission authority to review gas gathering services. The fiscal impact of granting the Commission additional jurisdiction over transportation services, or questions of access to the gathering system is significant. It is difficult

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to forecast the use of a complaint based system, However, the practical consequence of this bill would be the allowance of any interested party to petition the Commission regarding denial of access. A review of the operational concerns could be complicated given the dynamics of a gathering system and resolution of a complaint could be a lengthy process. While current law (K.S.A. 66-1502) allows utilities to be assessed costs for Commission investigations and K.S.A. 55-176 allows operators to be assessed costs for Commission investigations, there is no mechanism to assess costs to the individuals who bring a complaint under Chapter 55 who are not operators of wells or gathering systems.

At this time, the Commission has open a general investigation under docket number 06-GIMG-400-GIG that is examining the facts surrounding the operation of gas gathering systems, and the residential and agricultural consumption of gas delivered directly from gas gathering systems. In this docket, the Commission is requesting input from the affected parties on the obligations established under Kansas Law that affect the rights of the various parties. The laws in question are the Chapter 66 laws dealing with a public utility's obligation to provide sufficient and efficient service as well as the gas gathering laws listed in SB 576. To obtain this input, the Commission provided a list of specific questions that have been raised in previous gathering system complaints and in the discussions of the Southwest Kansas H₂S and Low Pressure Task Force.

On January 27, 2006, Staff filed its report and recommendation answering the questions posed by the docket. A copy of Staff's report and recommendation is attached to my testimony. At this time, the Commission has requested the remaining commenters to file a response to Staff's

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report. Their response is due on March 14, and we expect a procedural schedule to be set shortly after the 14th for the Commission to hold a public hearing on this matter.

In our report and recommendation, Staff takes the position that many of the gathering systems in Southwest Kansas have a dual function. First, they provide gas gathering services by collecting gas from producers and moving it to transmission lines. Secondly, some of the gathering systems provide a transportation function by moving gas from a producer and selling it to an end use customer from an interconnect along the gathering system pipeline. It is Staff's opinion that the transportation function is not a gas gathering service and it is currently exempted from Commission jurisdiction by K.S.A. 66-105a. Other commenters have disagreed with this position, and they contend that the legislature intended to include the transportation function as a gathering service when the gas gathering statutes were written.

The present statute requires a gas gatherer to provide access to any producer that wants to connect to their system. Because most Kansas gathering systems have no capacity limits, adding volume does not usually create operational problems. In fact, it is our opinion that many of the Kansas systems have exactly the opposite problem. That is, gathering capacity far exceeds demand, and the gatherers have difficulty in maintaining minimum throughput rates needed to maintain an economic operation. The gas throughput volumes of a gathering system are dependent upon the depletion rate of wells, the transfer of wells to a different gathering system, the addition of wells to a system, or the reconfiguration of the system operations. Many of these variables may be unforeseen even by the operator of the gathering system. It is Staff's opinion that adding open access for retail customers through interconnections will significantly increase

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the complexity of a gathering system's operation and inventory control. It can probably be done with the addition of electronic flow measurement and custody transfer equipment, but all of that technology comes with a cost for all parties. This would include the producers, the gathering system operator, any consumers presently connected to gathering systems, and those who might choose to exercise this new statutory right.

Staff believes the practice of using a gathering system for deliveries to interconnected customers must necessarily remain secondary to the primary function for which these systems were constructed -- moving the gas from the producer to the transmission line. Open access for exit taps would eventually result in reconfiguration of the system that would be costly to the producer and ultimately lead to an early abandonment of the production reservoir which will directly impact producers and royalty owners. Excessive exit taps would also diminish the amount of gas that is delivered to gas plants for processing. When turndown limits of a plant are met, the plant must shutdown, reconfigure its operation, or deliver the gas to another source. This would obviously be an additional cost required from the gatherer and the producer in order to continue delivering gas to markets other than exit taps.

We would also like to point out that the proposed language in Section 6 and Section 8 appear to be contradictory. The changes in Section 6 require a public utility to obtain Commission approval prior to abandoning a customer. This is consistent with Commission practice and we feel we currently have the obligation to review proposed abandonments by public utilities under K.S.A. 66-117. The changes in Section 8 of the bill, however, indicate to us that Commission review of a proposed abandonment would only be required if the customer files a complaint. It

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is our understanding that the intention of Section 8 in the current statute is to provide gas consumers served by a public utility advance notice of an impending abandonment. As we note in our report and recommendation, it is often difficult or nearly impossible for the public utility to be able to forecast gas availability on a gathering system. A more appropriate change may be a requirement for both the gathering system operator and the public utility to provide notice of an anticipated abandonment. Once notice is served, the KCC would have the obligation under 66-117 or under the proposed change in Section 6 of the bill to review the abandonment. I also think you should be aware that many of the consumers connected to gathering systems are not served by public utilities. Rather they are served under private contracts between the gathering system operator or an independent gas marketer.

This concludes my testimony, and I would be happy to answer any questions you may have.

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KCC STAFF TESTIMONY
ATTACHMENT 1

MEMORANDUM

To: Brian J. Moline, Chair
Michael C. Moffet, Commissioner
Robert E. Krehbiel, Commissioner

From: Leo Haynos

Date: January 24, 2006

Re: Docket No. 06-GIMG-400-GIG
Report and Recommendation in Response to Request for Comments

Introduction

Expansive gas gathering systems are present in and around the southwest Kansas gas fields. These systems are primarily used to collect gas from numerous wells and deliver it to one or more points for transportation on intrastate and interstate pipelines to markets and end users. Many Kansas residents and businesses use the gas from the fields by tapping directly into the many miles of gathering system pipe throughout the region. These customers take unprocessed gas from points along the gathering systems referred to as "exit taps" prior to the final delivery point of the system. The final delivery point of the gathering system is the physical end of the gathering pipeline, usually a processing plant or point of sale to another pipeline.

In the order opening this docket, the Commission requested Staff and interested parties to respond to a series of questions. The following paragraphs provide Staff's analysis of the issues involved in this investigation, and they provide specific answers to each question listed in the

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opening order. In addition to our analysis, Staff has listed 7 recommendations for the Commission's consideration.

Background

The gas gathering systems in southwest Kansas consist primarily of a piping network that was installed by vertically integrated interstate natural gas transmission companies. The transmission companies owned the gathering/transmission pipeline network as well as the natural gas in the system. Many of the consumers currently connected to the gathering system were originally customers of the interstate transmission company. The transmission companies provided gas service to exit taps as part of right-of-way contracts and for commercial sales. At least two of the transmission companies applied for and received certificates of convenience from the Kansas Corporation Commission to serve customers adjacent to their gathering systems. Before 1992, these interstate companies provided bundled sales and transportation service at federally regulated rates and the Kansas tariffs mirrored the federal rates.

The bundled services of sales, transportation, and storage were discontinued in 1993 for most customers by the Federal Energy Regulatory Commission (FERC) Order 636. After the passage of Order 636, the various functions of the gathering systems were sold or transferred to a variety of entities. The gathering systems belonging to interstate transmission companies were spun down to become intrastate gathering companies in order to compete with other intrastate gatherers. Because Order 636 prohibited the interstate companies from continuing gas sales, the Kansas certificated territory and retail direct sales customers were sold or transferred to gas public utilities with Commission approval.

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Under the present operating scenario, many of the gathering systems in southwest Kansas transport gas to exit taps, serve customers through exit taps AND move gas from production lines to transmission lines. In some cases, the rights to serve consumers connected to exit taps are owned by public utilities that are certificated in the area to provide retail gas sales. In many cases, retail gas sales from gathering lines are conducted by companies that are not certificated public utilities. Staff's research indicates the gas providers that are not public utilities typically are third party gas marketers that are transporting gas on the gathering system, or the gas is provided for retail sale by an affiliate of the gas gatherer. These retail sales typically are subject to private contracts between the consumer and the gas provider.

Analysis

Kansas statutes K.S.A. 55-1,101 et seq. (gas gathering statutes) recognize gathering systems are a natural monopoly. The statutes require the Commission to provide regulatory oversight to allow producers or gas marketers access to the system and to prevent discriminatory gathering practices. The term gas gathering services included in the statute is defined as gathering or preparation of gas for transportation. That is to say, gas gathering services is a function of moving gas FROM production TO transmission. Under this scenario, the gathering function includes any processing that is done to prepare the gas for transmission. Therefore, it follows that while gathering can have many points of entry or access to the system, there is only one exit point. In Staff's opinion, this definition only recognizes the connection to the transmission line as an exit point from a gathering system. Although not defined in statute, the definition of a transmission line is typically the next segment of the gas delivery system. Transmission may be defined as moving or transporting gas from a point of receipt or entry on the line to an exit point. At the transmission exit point, the function of the piping system becomes distribution. Gas

distribution could be the immediate sales to a customer, e.g. a pipeline tap, or it could be wholesale sales to a retail provider like a public utility distribution network.

The definitions included in the gas gathering statutes indicate to Staff that the Kansas legislature recognized the above described pipeline functions, (gathering, transmission and distribution) could coexist on a gas gathering system. This fact is demonstrated by the inclusion of the word "primarily" in K.S.A. 55-150(d) to define a gas gathering system¹. Other examples of this intent are found in K.S.A. 55-1,107 and 55-1,109 which distinguish between a public utility selling gas at retail from a gas gathering system and a person offering gas gathering services. The phrase from K.S.A. 55-1,107, " ... A person purchasing natural gas OR gas gathering services from a person offering gas gathering services in a retail natural gas service area...", (emphasis added) clearly indicates that sale of natural gas for retail was not considered to be a subset of gas gathering services. Although the gas gathering statutes recognize the multi-functionality of a gas gathering system, the prescriptive language of the statutes only addresses the gas gathering function. It is Staff's opinion that the gas gathering statutes never contemplated regulatory control over service to exit taps because no requirements were placed on the transmission or distribution functions that coexist on gathering lines in southwest Kansas.

It is Staff's contention that the gathering systems of concern have the dual functionality of gas gathering systems and transmission systems. Staff believes that at the point custody for the gas transfers to a certificated public utility, the piping and facilities become a public utility under the definition of K.S.A. 66-104. Examples of this scenario would be those consumers served by

¹ K.S.A. 55-150(d): "Gas gathering system" means a natural gas pipeline system used primarily for transporting natural gas from a wellhead, or a metering point for natural gas produced by one or more wells, to a point of entry into a main transmission line...

Midwest and Aquila from facilities connected to the gathering system. Although the infrastructure delivering the gas to these customers is exempt from being considered a public utility function, the public utility function begins at the point of custody transfer to the public utility or to the gas provider. It is Staff's understanding that many of the companies that provide retail gas sales to consumers from gas gathering systems are not certificated public utilities.

Staff believes the function of delivering gas from production to an exit tap should be considered a transportation function rather than a gathering function. Although transporting gas by intrastate pipeline meets the definition of a public utility under K.S.A. 66-104, K.S.A. 66-105a clearly states that gas gathering systems whose primary function is delivering gas from production to transmission can not be considered as public utilities or common carriers in Kansas. Under the Natural Gas Act, the Federal Energy Regulatory Commission (FERC) was given jurisdiction over companies engaged in interstate transportation or sale of natural gas. Because the gas in question is produced and consumed prior to entering interstate transportation, this type of sales transaction is also not subject to FERC jurisdiction.

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Policy Considerations

Based on the above analysis, Staff has reviewed each question listed in the docket and provided answers specific to each question. Furthermore, Staff has reviewed the comments received from other intervenors in this docket. Based on our analysis and review of intervenors' comments, Staff offers the following recommendations for the Commission's consideration:

1. The provision of exit taps on a gathering system should be left to the discretion of the gathering system operator. Commission involvement should be limited to the effect an exit tap may have on gas gathering services. Staff believes gas gathering services do not include delivery of gas to end use customers and the practice of using the system for this purpose must necessarily remain secondary to the primary function of gathering gas i.e. moving the gas from the producer to the transmission line. Open access for exit taps would eventually result in reconfiguration of the system that would be costly to the producer and ultimately lead to an early abandonment of the production reservoir. Excessive exit taps would also diminish the amount of gas that is delivered to gas plants for processing. When turndown limits of a plant are met, the plant must shutdown, reconfigure its operation, or deliver the gas to another source. This would obviously be an additional cost required from the gatherer and the producer in order to continue delivering gas to markets other than exit taps.
2. Any gas gathering system that provides gas to an exit tap under a contract other than a right-of-way (ROW) agreement is providing gas transportation rather than a gas gathering service. Regulation of intrastate transportation of natural gas has historically fallen within the purview of the Commission; however, current legislation exempts this function from Commission jurisdiction if it occurs on a gathering system. Staff

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recommends the Commission rule on Staff's interpretation that the different functions of the gas gathering system may have different regulatory oversight.

3. Gas delivered by gas gathering system operators to exit taps as part of ROW agreements should be considered as incidental to the operation of a gas gathering system. Those agreements should be considered as private contractual matters outside the jurisdiction of the Commission except as provided for in K.S.A. 66-105a (b)-(d).
4. Gas sold to exit tap customers that are not under ROW or leasehold agreements is considered by Staff to be a distribution function of natural gas. As such, we believe this function may fall under the definition of a public utility in K.S.A. 66-104 or the definition of a gas provider in K.S.A. 66-2101(f). If the Commission agrees with this interpretation, the entities providing retail gas sales that meet the definition of a public utility should be required to apply for a certificate of convenience and necessity in order to continue serving customers. The terms and conditions of the certificate should reflect the unique operating conditions of providing distribution service from gas gathering systems.
5. Staff recommends that the Commission, as part of this proceeding, request comments with technical justification from the industry on what level of H₂S contamination should be allowed residential consumers connected to exit taps.
6. If abandonment of service to a public utility customer becomes necessary, Staff believes some amount of compensation for the conversion to an alternative fuel source is appropriate for residential consumers. Staff agrees with the comments of Midwest Energy (See Written Comments of Midwest Energy answer to question B4) that the amount of reimbursement for each case of abandonment should be reviewed using an established set of principles that provides guidelines for the amount of reimbursement.

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Therefore, Staff recommends the Commission direct Staff and the parties to this investigation to compile a specific set of principles dealing with reimbursement for conversion to alternative energy for review and approval as part of this proceeding.

7. In fulfilling the requirements of K.S.A. 55-1,109, Staff recommends that utilities providing notice of insufficient gas supply be required to establish a close working relationship with the company providing transportation service to the exit tap customer. We believe this communication to be a condition of providing sufficient and efficient service. More robust and timely communications between the utility and operator of the gathering system should result in a more dependable forecast of future supplies.

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ANSWERS TO QUESTIONS IN OPENING ORDER

A. Exit Taps and Gas Gatherers

- (1) Under K.S.A. 2004 Supp. 55-1,103 is there a requirement that gas gathering systems provide "exit taps" to persons requesting such taps? In other words, are exit taps within the scope of "gathering services" and the obligation to provide "access to any person seeking such services or facilities [essential to provision of such services]?"**

The requirement for access can not be taken out of context of the phrase essential to the provision of such services. Staff does not believe exit taps are within the scope of 55-1,103

- (2) If some exit taps are provided, is it unjustly discriminatory or unduly preferential under K.S.A. 2004 Supp. 55-1,103 to deny new exit taps or to curtail some but not all existing taps?**

Under K.S.A. 66-105a, a gas gathering system can not be considered a public utility. However, Staff contends the taps in question are a distribution function of the pipeline that extends beyond the gas gathering system. As such, those taps that provide retail sales of gas for residential and commercial consumers meet the definition of K.S.A. 66-104 and should be considered public utilities. Adding or denying new taps on the gas gathering system would not fall under the jurisdiction of the Commission because of the exemption provided in K.S.A. 66-105a.

- (3) Do any other statutes impose a requirement on gas gathering systems to provide exit taps or other services to end use customers?**

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Staff maintains the definition of gas gathering systems only applies to the piping function of delivering gas from production facilities to a transmission line. Under this definition, exit taps as defined in the order opening this docket are something other than a part of a gas gathering system. Gas gathering systems providing distribution or transportation service are exempt from KCC oversight. Other than the potential application of 66-104 to some of the existing taps, there are no requirements.

- (4) If exit taps are not covered by K.S.A. 2004 Supp. 55-1,103, what jurisdiction does the Commission have with regard to provision of such exit taps, in addition to that provided under House Bill 2263, e.g is the provision of such service a public utility service subject to Chapter 66 regulation?**

Staff believes the gas gathering piping network serves three purposes: Those are: 1. providing gas gathering services; 2. providing intrastate transportation service to exit tap customers; and, 3. downstream of the tap, providing distribution gas service to the consumer. This question addresses only the distribution aspect which is an extension to the gas gathering piping. As stated in the response to Question 2(A), Staff believes the Commission has jurisdiction over existing exit taps that provide service to residential and commercial consumers. Taps that provide service for agricultural purposes may be exempt from the K.S.A. 66-104 definition under the provisions of the Rural Self Help Gas Act, (see response to question A-7).

- (5) Do the answers to the previous questions differ if a public utility owns the meter or other facilities between the exit tap and customer?**

If the customer is currently served under established tariffs by a public utility certificated to serve in that territory, Staff would expect the public utility to continue that obligation.

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(6) How does the fact that some exit tap customers may be entitled to service from the gathering systems due to right-of-way agreements affect the answers to the previous questions?

If gas service is being provided as an incidental cost to operating the gas gathering system, it is conceivable that a right-of-way customer could be considered to be part of the gathering system and thereby exempt from public utility regulation as per the terms of 66-105a. However, if the gas is being provided to the right-of-way customer by a third party at market prices, the answer to Question 4(A) would apply.

(7) Does K.S.A. 66-2101 et seq., the Self Help Act, affect the obligations of gas gathering services operators with regard to exit taps?

The Self Help Act² allows certain exit tap customers open access to a source of gas supply; however, it does not grant the rural gas user open access to gas piping networks. Staff believes exit taps are a distribution function attached to the gas gathering pipeline. As such, any agreements between the gathering system operator and the customer that deal with exit taps are not gas gathering services. Access to the physical pipeline tap appears to be the result of ROW agreements or private agreements between the gathering system operator and the end use customer. In Staff's opinion, those exit taps that are not the result of ROW agreements appear to be the a condition of a gas transportation agreement with the gathering system operator. The Commission does not have jurisdiction over transportation agreements on gas gathering systems because of the exemptions in K.S.A. 66-105a.

²The Rural Kansas Self Help Gas Act, (K.S.A. 66-2101 et. seq.) provides customers using gas for agricultural purposes the ability to bypass certificated public utilities if the utility does not have gas distribution infrastructure in place to serve the customer. Under this act, the rural gas user may contract with any entity to supply natural gas and the provider of such service is exempt from being considered a public utility.

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B. Abandonment of Service by Gas Gathering System Operators

- (1) **If a person offering gas gathering service asserts that it can no longer adequately or safely provide gas to exit tap customers what type of showing should be required pursuant to House Bill 2263? What standard or minimum showing should be required to demonstrate that the supply of gas is inadequate? What is the minimum showing with regard to safety aspects of the presence of H₂S?**

House Bill 2263 requires the Commission to determine the reasonableness of any health or safety related curtailment. In order to perform this function, Staff believes it is necessary for the operator to provide gas sampling data or system operations records that demonstrate the need for a curtailment. Furthermore, Staff is unwilling to make a "reasonableness" determination based on anecdotal records. The amount of data supplied should be of sufficient quantity and quality to make a convincing argument regarding the notice of curtailment. With regards to curtailments that result from H₂S contamination, Staff believes the Hugoton Field H₂S and Low Pressure Task Force report will provide guidelines on the level of H₂S that should be considered by the operator when recommending curtailment. Staff notes the task force's guidelines do not establish a clear threshold of the amount of H₂S in the gas that should result in curtailment to consumers. However, we recognize that it would be beneficial to the industry for the Commission to establish the maximum amount of H₂S in the gas stream at which curtailment would be mandatory for certain classes of customers. In Docket 05-CONS-222-CMSC, Staff has recommended a level of 15 parts per million (ppm) of H₂S in the gas stream as the level at which service to residential customers should be curtailed. Staff recommends that the Commission, as

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part of this proceeding, request comments with technical justification from the industry on what level of H₂S contamination should be allowed residential consumers connected to exit taps.

- (2) If gas quality is poor or a potential safety risk, but the exit tap customer still wishes to purchase the gas, is the gas gathering service required to continue furnishing the gas?**

As a matter of course, any gas supply that can be demonstrated to be a potential safety risk should be curtailed regardless of the wishes of the customer. As noted earlier, Staff does not believe a gas gathering service is being offered to exit tap customers. In some cases, however, the supply of natural gas to exit taps falls under the authority of 66-104. For those taps that are considered to be public utilities, (see responses to questions 2(A)-4(A) above), the public utility would be required to provide sufficient and efficient service to its customers, (See K.S.A. 66-1,202). Staff considers providing gas of poor quality or of a potential safety risk to be an indication that the public utility is not providing sufficient and efficient service. Therefore, Staff would recommend the public utility be required to provide proper service to the customer or abandon the service. However, Staff notes the gas supplied to exit tap customers by definition is not comparable to the quality of gas supplied to the typical distribution consumer. For exit tap customers, the subjective phrase "sufficient and efficient" has to be considered within the context of the supply available.

- (3) If termination of service is allowed, what authority does the Commission have to require the person providing gas gathering service (or its marketing affiliate) to provide for costs of an alternative fuel source such as propane in cases where:**

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(a) The customer is directly served by the gas gathering system;

(b) A utility acquires the gas from the gas gathering system operator (or its affiliate)?

In those cases where the exit tap falls under the authority of K.S.A. 66-104, the Commission has a long track record of requiring the public utility to provide an alternative fuel source for residential consumers. This practice has been justified as being part of the utility's obligation to provide efficient and sufficient service. By virtue of the utility's certificate and tariff, it holds itself out as a reliable supplier of energy to its customer. If the service is not sufficient or efficient it has breached its contract with its customer and Staff believes some amount of compensation is appropriate. Staff is unaware of any previous Commission order to provide an alternative fuel source for irrigators or commercial customers. We note, however, that exit tap customers for agricultural purposes have the right to seek alternative supplies under the Kansas Rural Self Help Gas Act.

(4) What are the reasonable costs that should be reimbursed to customers who are abandoned or curtailed? Should this vary by the type of customer; i.e. residential, business or irrigation? Specifically, if use of the alternative fuel requires conversion of appliance and machinery, which appliances and machinery, such as irrigation equipment, should be covered? What should be the amount of reimbursement with regard to the alternative fuel itself; e.g. one tank of propane?

In our answer to the previous question, Staff stated our opinion that some compensation to customers of public utilities is justified. In the abandonment cases that have been brought before the Commission there is no standard for the amount of compensation. Typically, Staff recommends the residential consumer be reimbursed an amount equivalent to

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converting/replacing all household appliances (including domestic outbuilding appliances) for propane service, supplying the equivalent of a 500 gallon tank for propane storage, and supplying the differential in the cost of propane and natural gas for a one year supply of energy. Staff suggests the amount of compensation should take into account the culpability of the utility that brings about the service termination. For example, a utility that has failed to procure sufficient supply contracts or operating agreements to continue service may be required to offer more compensation to abandoned customers than a utility that is required to abandon service through circumstances beyond their control such as pressure depletion of supply or contamination of supply.

C. Natural Gas Public Utilities

- (1) What responsibilities do utilities have when a person offering gas gathering service determines that it can no longer supply gas to exit tap customers served by the utility? With regard to K.S.A. 55-1,109, is a general customer notice that service may be insufficient for the coming year appropriate notice or should utilities be required to provide more detailed information?**

It is Staff's position that the utility in this scenario is not using a gas gathering service. Rather, it is executing a supply contract for its customers in the same way that gas supplies are procured for all utility customers. Recognizing that gas gathering systems may be used for gas gathering and transportation, the legislature required public utilities to provide advance notice to its customers should they determine the supply may be limited for the coming year. It has been Staff's experience that utilities providing service to exit tap customers have no firm forecast of future supply availability. The inaccurate forecast may be the result of a poorly written supply contract, but more likely it is the result

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of the dynamics of being supplied from a gathering system. The operation of the gathering system is dependent upon the depletion rate of wells, the transfer of wells to a different gathering system, the addition of wells to a system, or the reconfiguration of the system operations. Many of these variables may be unforeseen even by the operator of the gathering system. However, as part of providing sufficient and efficient service, Staff suggests that utilities be required to establish a close working relationship with the company providing transportation service to the exit tap customer. More robust and timely communications between the utility and operator of the gathering system should result in a more dependable forecast of future supplies.

- (2) In reference to questions B(2) (3) and (4) above, what obligation does the utility have to continue service or convert the customer to an alternate source of energy?**

See answer to B(3) and B(4).

- (3) How do utility obligations related to rates and quality of service for exit tap customers differ from its traditional customers served by distribution systems owned by the utility?**

In previous responses, we have suggested that service to exit tap customers can not be directly compared to traditional customer served by distribution systems. In addition to a continuous supply of high quality gas, distribution systems typically have a higher density of customers per mile of pipe. Staff would expect this arrangement to result in relatively lower operating costs because of the efficiencies gained from operating a system with consistent gas quality and a high density of customers. On the other hand, servicing exit tap customers typically requires a disproportionate amount of travel or staffing to respond to service calls because of the relatively few customers spread over many miles. The fact that gas quality and pressure can vary at any given time increases the need to provide individual service

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which increases the cost of servicing this type of customer. K.S.A. 66-1,202 requires the utility to provide sufficient and efficient service. Given the dynamics of a gathering system operation, Staff recognizes the cost to provide sufficient and efficient service for exit tap customers will be slightly higher. Staff suggests the utility considered these variables when they applied for certification and held themselves out as a supplier of energy for exit tap customers. Although more service outages and longer response time to service calls may be inevitable for exit tap customers, the utility still has the obligation to provide service to this customer. The fact that the utilities have little if any investment in the infrastructure that serves this customer more than compensates them for the higher cost of service. In Staff's opinion, the quality of service to exit tap customers should not be significantly different than the quality of service provided to customers served by distribution networks.

(4) What role should quality of gas and continuity of supply play in establishing tariff prices for public utility customers?

For public utilities certificated in southwest Kansas, the established tariff price for natural gas is provided through a purchased gas adjustment. This price is set using a weighted average of the cost of gas throughout the utility's operation. A comparison of cost of gas from gathering systems to that of transmission line purchases shows no appreciable difference in the purchase price. Because the price of gas is simply passed through from the utility to the customer and the gas purchase prices from transmission or gathering are roughly equal, Staff sees no need to establish different tariff prices for the various classes of customer a utility may have.

(5) How has the unbundling of retail service, gas gathering facilities, and transportation facilities by former gathering system operators affected the ability of the current

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public utility to provide service to exit tap customers in its certified service territory?

Before unbundling occurred, vertically integrated interstate transmission companies provided gas gathering services, transportation services, and retail distribution sales of natural gas from gas gathering systems. Recognizing the distribution sales were a public utility function, at least three of the interstate companies applied for and received certificates of convenience to serve retail customers. At that time, the only pipe in the area of these franchises was the gathering system. Therefore, the interstate companies recognized the use of the gathering system as the means of transporting gas to their retail customers and the certificate of convenience allowed them to be the only company that could serve a given area. With the passage of Federal Energy Regulatory Commission Order 636, the interstate companies were required to stop providing retail sales and become strictly a transportation company. Subsequently, the gathering systems, which were never under FERC regulation, became an unattractive operation for the transmission companies who could no longer own the gas on their system. At this point, it is Staff's understanding that the gathering systems were sold off or "spun down" to affiliate companies. At approximately the same time as the sale of the gathering system, the certificated area and its customers were divested to local distribution companies (LDCs). The LDCs applied for and received a transfer of the certificates to serve these exit tap customers. In reviewing the transfer of the certificates, it is apparent to Staff that the Commission order approving the acquisition of the certificated area surrounding the gas gathering system placed no requirement on the LDC's to secure access to the pipe that serves their customers or to secure long term gas supply for the customers. The subsequent action of the legislature in exempting gas transportation on a gas gathering pipe system from Commission jurisdiction in K.S.A. 66-105a effectively removed any requirements

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that the gas gathering system operator negotiate supply arrangements for LDC customers. Although service to LDC customers is currently being provided, this set of circumstances places the LDC at an obvious disadvantage in meeting their obligation to provide sufficient and efficient service.

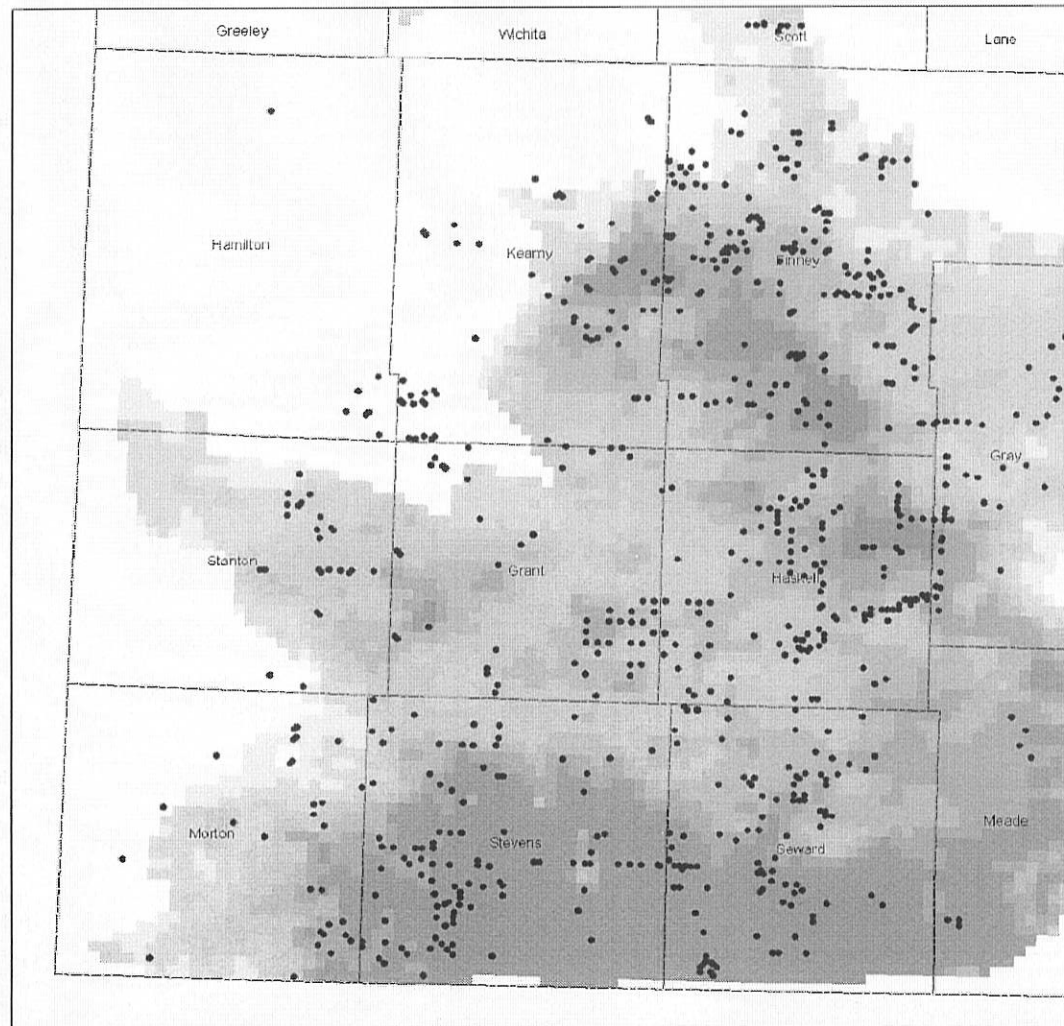
D. Effect of Negotiated Contracts

- (1) If the obligation to provide gas from the gathering system is addressed in a contract between the gathering system operator (or its affiliate) and the utility, what jurisdiction does the Commission have over the contract? Specifically, to what extent does the Commission have jurisdiction to enforce, interpret, or invalidate contract terms with regard to service, rates and liabilities?**

Staff believes the contract described would be a transportation contract. With the exemption found in K.S.A. 66-105a, the Commission would have no authority over transportation contracts offered on gas gathering systems.

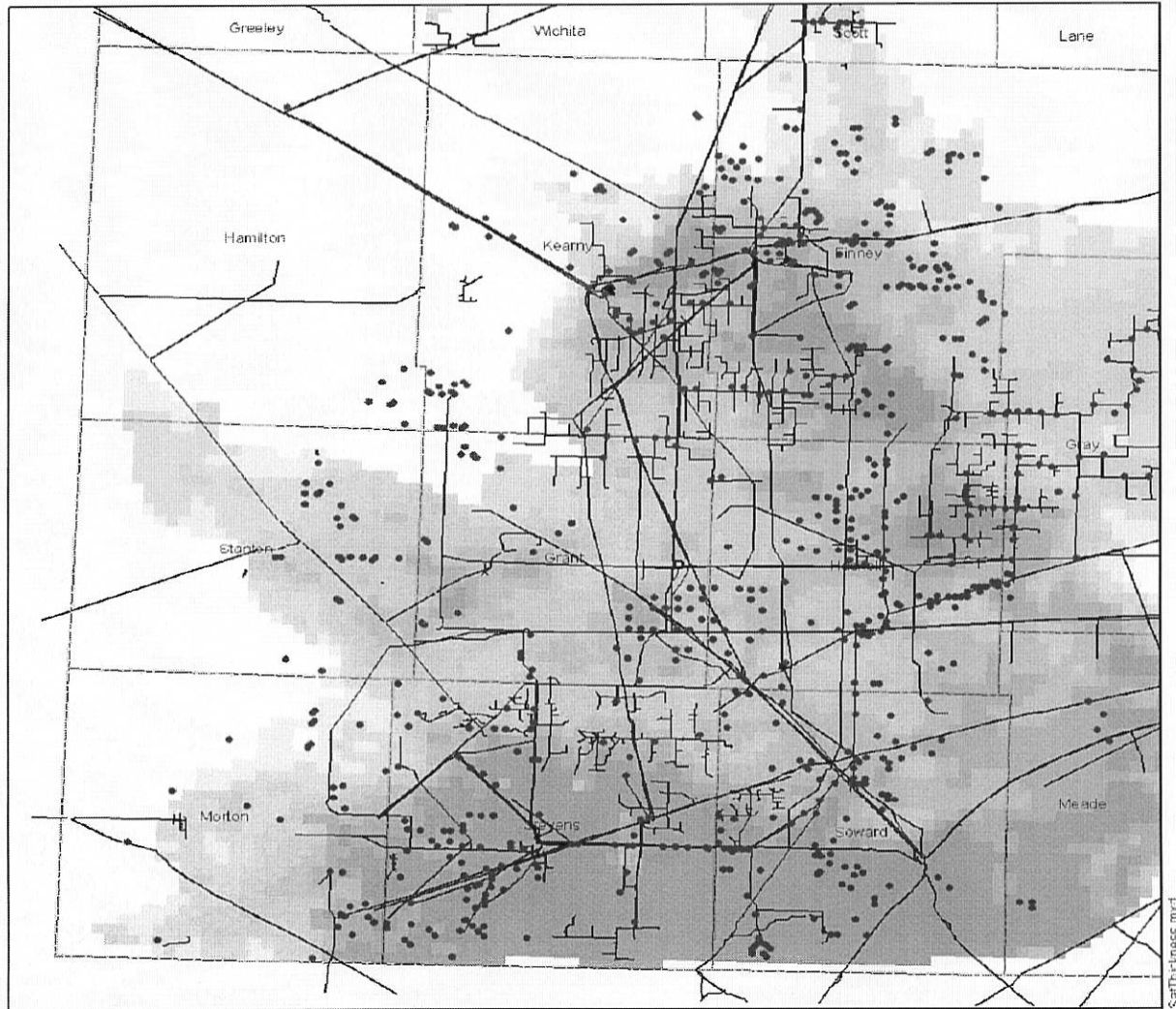
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Sat. Thickness with Gas Consumers

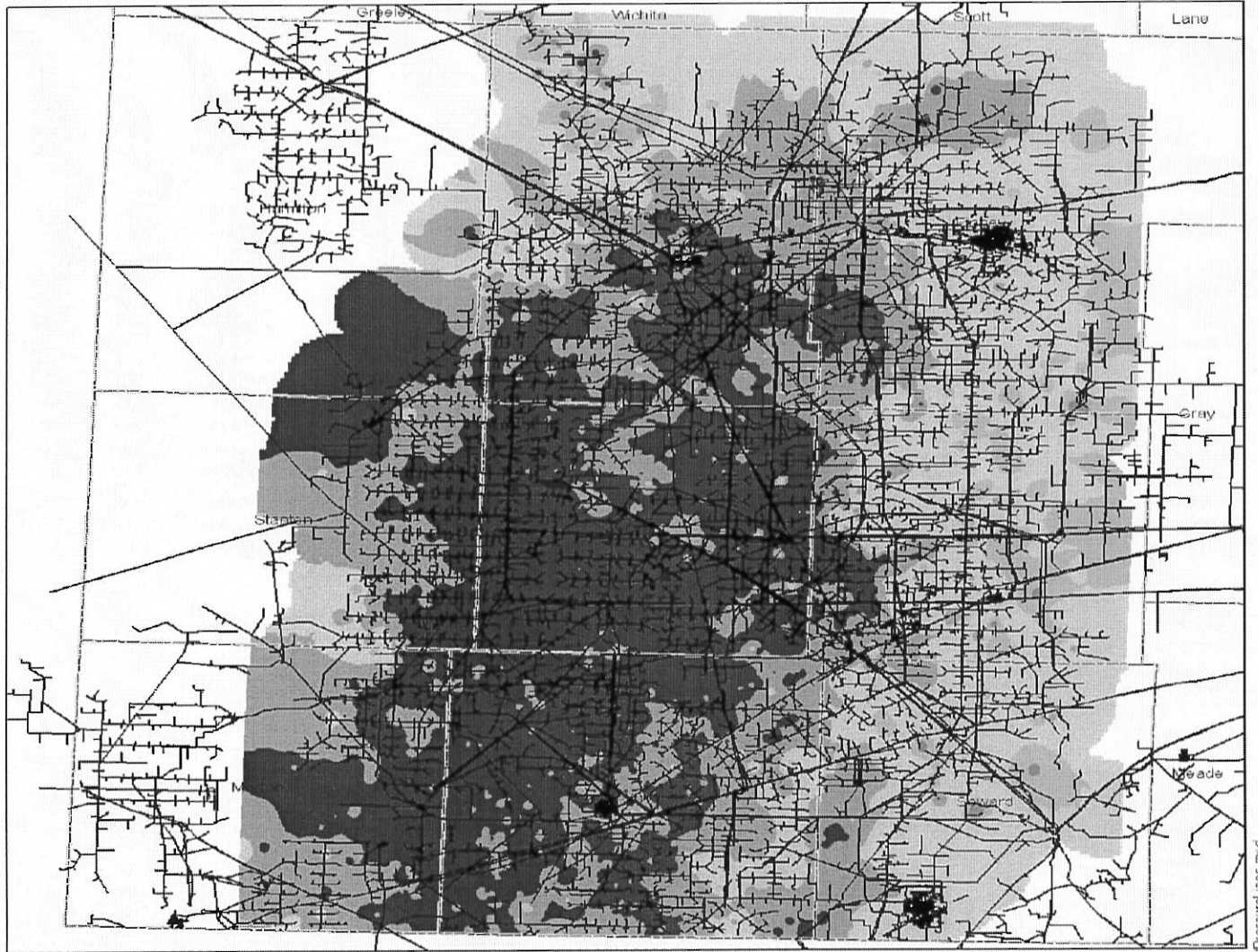


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Sat. Thickness, consumers, gas lines

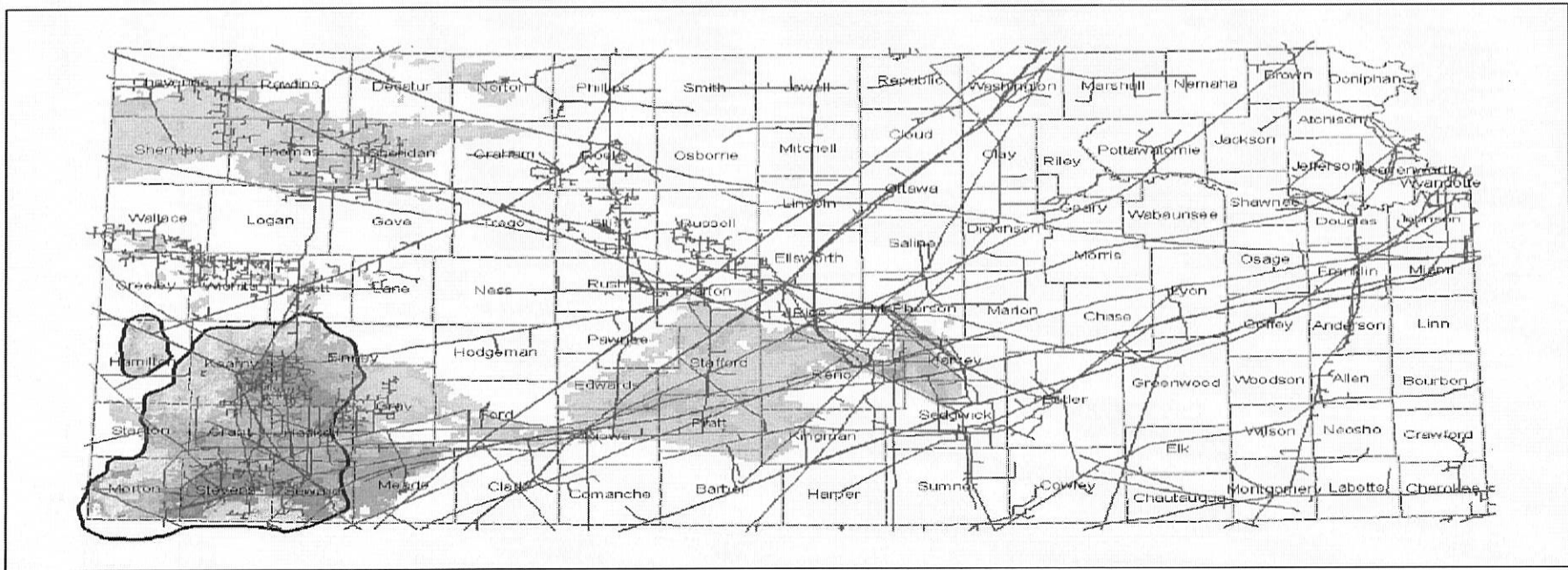


Field Pressure & Pipelines



Team 5 Tools for Economic Development

H2S Study Area with Natural Gas Lines and Saturated Thickness of High Plains Aquifer



H2S Study Area

Saturated Thickness ft to deplete	H2S PPM
0.014893 - 38.826430	0
36.825440 - 76.140991	0 - 5
76.140992 - 123.237915	5.00000001 - 15
123.237916 - 192.336304	15.00000001 - 30
192.336305 - 370.228516	30.00000001 - 200
	Gas Pipeline



**KANSAS
CORPORATION
COMMISSION**
9 September 2005



Aquila

**Revised Testimony On Senate Bill No. 576
Senate Utilities Committee
March 13, 2006**

*Presented by
Gary D. Wise-Operations Manager
Southwest Kansas
Aquila, Inc.
Dodge City, Kansas*

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to provide testimony before you this morning. My name is Gary Wise, and I am employed by Aquila, Inc. (Aquila) as the Director of Operations for Southwest Kansas, which includes 24 counties in Kansas. Our business address is 2303 West Frontview, Dodge City, Kansas 67801.

Aquila operates natural gas and electric utilities in 7 states, serving nearly 850,000 gas customers and over 400,000 electric customers in Colorado, Iowa, Kansas, Michigan, Minnesota, Missouri, and Nebraska.

Aquila provides natural gas service to over 105,000 customers in Kansas, including the communities of Lawrence, Dodge City, Garden City, Liberal, Goodland and parts of Wichita.

As part of our gas operations in Kansas, Aquila provides natural gas supply to more than 2,800 rural customers through gas pipeline facilities including gas gathering lines and interstate pipelines.

From 1972 through 2000, prior to working for Aquila, I worked in positions of increasing responsibility in the Hugoton Gas Field located in Southwest Kansas. During this time period I held positions as a Natural Gas Liquids Plant Manger, Manager of over 52k horse power / 2300 mile Gas Gathering Compressor System, Senior Drilling Foreman, and Manager of a Construction / Engineering Pipeline Company. I have 34 years of experience in the Oil and Gas Industry in Southwest Kansas and the utilization of Natural Gas for Irrigation Purposes.

In May 2000 I joined Aquila as the Director of Gas Operations and in 2003 was named as the Manager of Operations.

Senate Utilities Committee
March 13, 2006
Attachment 10-1

SB 576 does not directly affect Aquila to any significant extent, and Aquila does not take a position for or against passage of the bill. However, Aquila would like to offer some comments and concerns for consideration of the Committee in its deliberations regarding the bill.

Initially, it is to be observed that SB 576 touches upon jurisdictional issues which are now being considered by the Kansas Corporation Commission in its General Investigation to determine a Commission policy regarding customers served by gas gathering systems (KCC Docket No. 06-GIMG-400-GIG), in which Aquila is participating. However, it does not appear that SB 576 preempts or compromises the Commission's investigation.

Aquila has two points of concern with SB 576. First, with respect to the requirement in Section 2(a) that the owners or operators of gas gathering facilities shall file and maintain with the Commission updated maps of the gas gathering facility, showing the locations of wells on the system, as well as the locations of interconnects for receipts and deliveries of gas, Aquila has a concern regarding the dissemination of these maps. While such maps could prove very useful for the Commission and for natural gas public utilities which receive gas from the gas gathering facility, Aquila does not believe that such maps should be made available to the general public, because of security implications. Thus, if SB 576 is to receive favorable consideration by the Committee, we recommend that it be amended to authorize the Commission to adopt rules and regulations governing access to such maps, limiting access to those persons and entities having a clear need to view the maps under appropriate confidentiality requirements.

The other area of concern is prompted by the new language being added to K.S.A. 55-1,107, beginning in line 43 on page 4 and continuing at the top of page 5. Aquila does not dispute the requirement that the Commission must approve a natural gas public utility's abandonment of service from gas gathering facilities under an exclusive certificate of convenience and necessity, but Aquila believes that there are instances where the Commission's approval of an abandonment should not be withheld. For instance, when a gas gathering service provider terminates the supply of natural gas, or when a gas gathering service provider experiences gas quality or low pressure conditions giving rise to safety concerns or unreliable service at the point where the utility receives the gas, the public utility has no choice but to terminate service to its customers. Under these circumstances the Commission should not withhold approval of the abandonment. A proposed amendment to that effect is attached to my testimony.

Thank you for the opportunity to provide testimony before you today. We are happy to stand for questions at the appropriate time.