

**Senate Bill 522**  
**Friday February 20, 2004****Testimony of Dr. Dale Rawson, Superintendent, Burlington USD 244**

This testimony is offered in SUPPORT of Senate Bill 522.

The information provided is rather lengthy but helps exemplify the problems that currently exist in our school district related to the transportation of natural gas. The Executive Summary provides a brief overview and the documentation follows for those who are interested.

**Executive Summary:**

As explained in the following paragraphs, I will ask the committee to support Senate Bill 522 for the following reasons

1. The Cash Out penalties established by the utility company are punitive to the point of making transportation unfeasible. Modification and/or elimination of cash out penalties above those that are incurred from the interstate pipeline are requested.
2. The 'rules' of transporting natural gas have changed and the transport customer is not informed of those changes until well after the fact making it difficult or impossible to comply with the change in the rules. Improved communication is necessary and removal of cash out penalties for changes in rules that were not communicated should be eliminated.
3. Confusion in transport billings is prevalent. All organizations involved with transportation of utilities should be required to adopt common billing and communication procedures. Cash out penalties that are incurred due to errors in billings that are not the fault of the transport customer should be eliminated.

**Background:**

The following provides a short background of how gas transportation works in case some members of the committee are not familiar with the process.

Transporting natural gas can be thought of as purchasing gas on a wholesale market from the MARKETER and paying delivery charges to the INTERSTATE PIPELINE and the UTILITY to have the natural gas delivered to the school. Each of the above entities has different rules and since the commodity moves across state lines, some of the rules are regulated by the federal government.

The system (in simple terms) works as follows:

On about the 15<sup>th</sup> of the month the school will 'nominate' the gas to the MARKETER for the following **calendar** month. For example, on or about January 15, the school calls the MARKETER and nominates 100/day for 29 days or 2900 units for the month of February. The MARKETER places the nominated gas in the INTERSTATE PIPELINE for transportation to the UTILITY.

The UTILITY delivers the gas to the school. Since the gas used fluctuates based upon building usage, outside temperature and wind the exact gas on a given day may vary. In the 'big picture' if the amount of gas injected into the INTERSTATE PIPELINE is not sufficient, the UTILITY may need to add gas from its reserves. Likewise, if too much gas is in the INTERSTATE PIPELINE, the UTILITY may need to take the excess out.

At the end of the month, the nomination is compared with the actual gas delivered. The UTILITY bills the school for any amount used in excess of the nomination or 'cashes out' the school for any amount nominated above the amount delivered.

The 'cash out' is based as follows:

- For any amount from 0-10 percent delivered above the nomination, the UTILITY charges the school the highest cost of gas they paid during the month. For any amount from 0-10 percent delivered below the nomination the UTILITY pays the school the lowest price of any gas they purchased during the month.
- For amounts that vary from 10.1 percent to 15 above or below the nomination, the UTILITY charges 120 percent of the highest amount or pays the school 80 percent of the lowest amount.
- For amounts that vary greater than 15 percent, the UTILITY charges 140 percent of the highest rate or pays the school 60 percent of the lowest rate.

#### **Problems with the System:**

1. The Date The Meter is Read Has Not Been the Same. When the Cash Out system began in the fall of 2002, the UTILITY did not always read the meter on the last day of the month. If, for example, the 'meter man' was in town during the last week of the month, he would often read the meter and call it the monthly reading. While this doesn't make a difference to those on the retail market since the over/short is taken care of the next month, for the transport customers, it makes a major difference. For example, some meters were read as early as the 25<sup>th</sup> of the month. If a month had 30 days and the cash out was based upon a 30 day nomination, the early read (5 days divided by 30 days) would be an automatic error of 16.7 percent. Even if the school made a perfect nomination, the school would be 'long' by 16.7 percent in its nomination and would be cashed out.

Since this reading would be the beginning reading for the next month, even if the following month the meter was read on the last day of the month, the fact that the beginning reading was from the 25<sup>th</sup> of the prior month would result in the delivery appearing to be higher than the nomination for that month (i.e. 35 days of usage for 30 days of nomination.) This will result in the school's nomination being 'short' by nearly 16 percent (30/35) even if their nomination was perfect.

As the committee can see, even if the school perfectly nominated the actual gas delivered, a variance of the day the meter was read will throw one month long and the subsequent month short resulting in the school being penalized both months by the cash out system.

NOTE: To be fair to the UTILITY, following a meeting with the Kansas Corporation Commission last summer, the UTILITY (that serves our school) notified us of the meter read dates for the 2003-04 school year.

2. While the meter read dates are now known, the computation of nomination vs. delivery still varies. Following the meeting with the KCC, the UTILITY notified schools of the meter reading dates. By and large they are the last business day of each month. While this has helped, the following problems still exist.

The UTILITY indicated they would read the meter on the last business day of the month. It was not mentioned until later this fall that if they read the meter before the end of the calendar month, the nomination would be converted to a daily amount and reflect the days in the billing cycle.

For example, in November 2003, since the UTILITY took the Friday after Thanksgiving as a company holiday, the meter read date was November 26, 2003. Assuming a daily usage of 100/day, they computed the cash out on a total of 2600 units (100/day x 26 days) even though the MARKETER had nominated 3000 units for the calendar month. Likewise, in December, the UTILITY planned for 35 days (November 27-December 31). While this compounds the difficulty of trying to match the MARKETER's nomination with the UTILITY's deliveries, it can be done.

Once this was understood, the school began to modify the nomination to reflect that the UTILITY would read the meter on the last business day and that the nomination would be shortened commensurately.

The current problem is that even though we now have the meter read dates, the UTILITY verbally notified the school in January that if there are only one or two days different from the last business day of the month and the calendar month, the UTILITY will use the MARKETER's full monthly nomination. For example, the last business day of February 2004 is February 27. At the 100/day example, this means we should have delivered 2700 units; however the UTILITY indicated that for this month they will use the 2900 units for the calendar month. It is impossible to accurately nominate when the method of comparing the nomination to the delivery changes.

While this school district was notified of the change by which the UTILITY would measure the nomination for cash out purposes, not all transport customers were notified of this. As a result, they will be subject to additional cash out penalties because the UTILITY modified the cash out rules and did not notify the transport customers.

It is believed that the UTILITY should clearly establish when it will prorate the nomination and when it will use the full month nomination. This notice should be to all customers and should be in writing. Cash out penalties should not be applied to transport customers when the UTILITY modifies the rules without providing written notice.

3. Other changes in the rules of operation are not communicated. As this testimony was being prepared on Monday February 16, contact with the UTILITY regarding discrepancies between what the school had nominated for use in November and December 2003 and what the MARKETER had billed the school as actually transported were discussed. At that time the UTILITY indicated that since November 2003, the

INTERSTATE PIPELINE has exercised flexibility in allocating a portion of the gas nominated. Simply stated, if the school nominates 100 units per day for 30 days for a total of 3000 units, the INTERSTATE PIPELINE may only allocate 2500 units on the pipeline. The UTILITY indicated that they will recompute cash outs based upon the allocation compared to the amount of gas provided. What this means is that even if the school is perfect with a nomination and the meter is read on the correct date, the school will **still** be charged penalties because the INTERSTATE PIPELINE didn't allocate what we nominated. **Frankly, given this notice, as of Monday February 16, the entire concept of transporting natural gas now appears untenable.**

It is believed that the school should be exempt from UTILITY applied cash outs when the MARKETER's nomination on behalf of the school is not honored.

#### **SUMMARY:**

While other concerns exist, in the recognition of the limited amount of time for this hearing, the following summary is provided. For those committee members who wish to explore the concerns in more detail, additional problems follow the summary.

The current system of transporting natural gas allows schools an opportunity to save money that can otherwise be spent for students. While I certainly appreciate the need of the UTILITY to encourage transport customers to be accurate with their nominations, the **current system of cash outs applied to schools is believed to be punitive** to the point of making transportation a risk not worth taking unless some improvement occurs. I ask that this system, or at least as it applies to school districts, can be modified or eliminated.

Additionally, **communication** from the UTILITY concerning changes in the rules governing transportation of gas and cash out procedures must occur in a timely fashion. As stated above, the school was notified on February 16 of a change that will be made retroactive to November 2003 that completely nullifies any ability to accurately nominate gas under the transport system. This is not good business practice.

While errors can and will occur, the punitive action of cash outs should not be applied to schools when the errors are not the fault of the schools.

Additional background information follows this testimony for those committee members who are interested.

Thank you for your time and consideration.

**Additional Information** (not part of planned testimony):

The focus of the Legislature is viewed as best being able to protect schools from UTILTIY imposed cash out penalties that are in excess of those actually received by the UTILITY. It is for this reason that modification of the cash out provisions is requested.

Other problems with the transportation system exist. It is believed that these problems may be resolved through cooperative efforts of all involved parties and representatives of the Kansas Corporation Commission. Those problems are listed below:

- A. Adjustment factors vary and are not divulged until after the month is over. The UTILITY adjusts the delivery and nomination by the quality of the gas and the gas that is 'lost' in the system. These factors can reach as high as 5 percent of the total. The UTILITY may change the factors as it deems necessary but the school is not made aware of the change until after the fact. If the factors are changed, the result is that even a perfect nomination can be thrown off by not knowing the factors to be used.

It is requested that the UTILITY create a system to notify the transport customers of any modifying factors 30 days prior to the month they will be included in the cost calculation so that the customers have the opportunity to use those modifiers in computing the nomination.

- B. The cash out statement provided by the UTILITY does not consistently reflect the usage period for the statement. The cash out form provides limited space for the dates of service. When a two digit month (November – December) is presented, the statement will only allow one digit for the day. This results in the presentation of service being from 9/30-10/3 as the last date is truncated. This results in schools not realizing whether the last service date is 10/30 or 10/31.

It is requested the UTLITY modify the statement to accurately reflect the dates of service.

- C. Notifications are delayed beyond what is customary for good business practice. In the late summer/early fall of 2003, the Greenbush Natural Gas Purchasing Consortium 'hedged' a quantity of gas with the MARKETER. This means that a specified amount of gas based upon last year's usage is assigned to each transport customer at a fixed price. The 'hedge' started with nominations and infusions from the MARKETER to the INTERSTATE PIPELINE in November 2003. The notification as to the hedged amounts for our school district was not received until late January 2004.

This means we must now reexamine usage records and billings from November to ensure that the correct hedge was used.

It is believed that this information should have been provided earlier and it is requested that the KCC, UTILTIY, MARKETER and school representatives reach agreement on reasonable billing dates for notifications.

- D. Billings are late. We generally receive our billing for nominated gas from the MARKETER about 5 weeks after the close of the billing period. For example, our billing for the November 2003 gas nominated was dated January 5, 2004.

The Cash out from the UTILITY usually appears in the third week of the month following the delivery. While this is within normal billing limits, the actual daily long of nominations as transmitted to the UTILITY from the INTERSTATE PIPELINE who in turn received them from the MARKETER is delayed much longer. When billing errors occur, it is not possible to resolve the errors until all this information is in hand. As a result, we often face late payment and/or 'shutoff' notification issues because we don't have the data available to ensure correct payment.

- E. Billing inaccuracies occur and are difficult to resolve since the MARKETER and UTILITY do not appear to communicate. During the past several months we have had several inaccuracies in billings. While errors do occur, the resolution of errors would be facilitated if there were better lines of communication between the MARKETER and the UTILITY. Listed below are examples of errors in the last six months:

September 2003: UTILITY error. The meter on one building was incorrectly read or incorrectly inputted into the system by the UTILITY. The result was that for the month of September our delivery was underreported and as a result we were cashed out at 40 percent of the incorrect amount. Subsequent attempts to correct the error resulted in further errors on the October and November statements that resulted in compounding the cash out error. A meeting with the UTILITY representative finally resolved the question. By the time we had it resolved the UTILITY had to write off \$3,374.99 in cash out penalties.

November 2003: MARKETER error. The November nomination was adjusted on November 12 and again on November 21. The MARKETER confirmed the changes by e-mail; however, the November 12 nomination change to the INTERSTATE PIPELINE and subsequently to the UTILITY did not occur. As a result, on November 21, the MARKETER, modified the nomination so that the total for the month would be what the school intended. This resulted in the final days of the month having a much higher nomination that was expected. While this would not normally be a problem, the fact that the UTILITY read the meter on November 26 resulted in 4 days of the incorrect nomination being unapplied in November and being applied to December. This error placed the nomination and delivery in imbalance. It was not until December 11 that the school was able to ascertain from the UTILITY what had actually been nominated for them by the MARKETER for the month of November. The school was required to pay the cash out since it was not an error of the UTILITY.

November 2003: MARKETER ERROR/CONFUSION. The billing for gas from the Marketer should be for what is nominated. The November billing did not match the nomination. The MARKETER's representative corrected the error in January.

December 2003: MARKETER ERROR/CONFUSION. The billing for gas from the Marketer should be for what is nominated. The December billing was for 1929 units of gas

and the nomination was for 2016. The MARKETER's representative is investigating this error as of the date of this memorandum.

- F. Business hours of the MARKETER and UTILITY are not standard. As mentioned earlier, the UTILITY takes the Friday after Thanksgiving off. This was not known until the meeting with the KCC. The MARKETER also appears to have flexible hours around holidays. Due to the moderate winter weather in December, I determined to review the nomination and modify it on the morning of December 26. When I called the MARKETER, the message indicated the MARKETER was taking the day off. Since this was a Friday, I was unable to request a change until Monday December 29. Since it takes 24 hours to make the change effective, I could only modify the dates of December 30 and 31. Even by taking the nominations to zero, I was still long on the nomination and faced cash out penalties. Had I been able to make the change effective December 27, I could have been much closer.

It is requested that both the MARKETER or UTILITY provide the transport customers with their business days and hours well in advance.

While these problems may be beyond the scope of legislation, the committee is asked to understand how time consuming the resolution of these errors becomes. If **communication** between the MARKETER and the UTILITY with respect to billings occurred, it would be beneficial the transport customer. Likewise, if a system were available to allow the customer to **verify nominations and deliveries via web access or earlier billing procedures**, it could resolve many of the errors before they reach billing status. As it stands now, both companies have their own systems and mistakes are not readily recognized or corrected.

In closing, it should be noted that no 'blame' is attached to either the MARKETER or the UTILITY. In all cases, representatives from both companies have diligently tried to resolve the errors. The problem is that the scrutiny with which the transportation of natural gas must undergo to ensure that the customer is not placed at a disadvantage is enormous and represents a sizeable investment in terms of time.

There have been occasions when the entire concept of transporting natural gas has been questioned as not being worthwhile; however, the current rules will prohibit reentry into the transport method for a specified period of time if we withdraw from it due to the frustration and errors that seem to continue each month. Given that the savings can be substantial and that those savings are translated into more services for school children, it is hoped that the system can be improved so that transporting can be achieved in the manner for which it was intended.

Further questions may be addressed to:

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