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KCC Testimony on Senate Bill 303 March 21, 2005

I am Don Low, with the Corporation Commission staff. Thank you for the opportunity to testify on this bill.

The Commission does support this bill as a desirable confirmation and clarification of the KCC's authority with regard to curtailment of service to end use customers on gathering systems. It ensures that the Commission could determine the reasonableness of non-contract related curtailments that would adversely affect end users. Also, because these issues affect natural gas service to end use customers, it is appropriate to ensure that the KCC can address these issues under the public utility statutes rather than the gas gathering statutes.

As you know, in recent months certain end users, who obtain gas from gathering systems have been faced with curtailments or proposed curtailments by operators of gathering systems due to safety issues. As a result of the first curtailment in February, the Commission formed a task force to address potential curtailment issues due to hydrogen sulfide (H₂S) concerns and also problems of low system pressure. The task force consists of representatives of all the affected interests. A summary of the issues that is being addressed by the task force and additional background information is attached. The Commission fully intends to continue to work with that group to arrive at reasonable solutions. However, the Commission's statutory authority to deal with these problems has been an underlying question for the task force.

Despite statutory ambiguity regarding the KCC's jurisdiction to address these issues, the Commission did recently assert authority under K.S.A. 55-1,103, to temporarily prevent service shutoffs to Midwest Energy customers until there could be a hearing on April 11th on H₂S safety criteria and curtailment practices. As I am sure it is with you, customer safety is of paramount concern to the Commission. However, there is a question whether the proposed curtailments are justified.

The curtailment of service to customers, whether due to safety concerns or low- pressure problems, obviously affects the interests not only of customers but also of the gathering system operator, producers, and affected public utilities. Although the Commission is not anxious to expand its responsibilities, non-contract related curtailment issues are important and significant and the KCC may be best suited to balance those various interests. We think we already have that responsibility but welcome the clarification provided by this bill. It should be noted that the bill would not give the Commission authority over contractual disputes between a system operator and an end-user customer. The Commission certainly does not want to supplant courts in resolving right-of-way or similar contract issues.

Again, thank you for the opportunity to testify on this bill. I will be glad to answer any questions.

Study Group on the Impact of H₂S and Low Pressure in the Hugoton Field

On February 3rd, Oneok Field Services informed the Commission of potentially toxic concentrations of Hydrogen Sulfide (H₂S) in its Hugoton Field gas gathering system. They proceeded to notify the Commission and Aquila that immediate termination of gas supply to consumers served from gas gathering pipelines was necessary. The terminations of gas service to consumers connected to gas gathering began on Friday night, February 4.

One week later Commissioner Krehbiel and several staff members met with Sen. Morris, Sen. Emler, Sen. Umbarger, Rep. Holmes, and Rep. Light. Also present were company representatives from Oneok and Aquila. At the direction of Sen. Morris and the other members of the Kansas legislature, the Corporation Commission agreed to facilitate a working group in an effort to define the extent of Hugoton field operational issues that impact the natural gas supply in rural areas of Southwest Kansas.

The first meeting of the working group was held on March 1. The meeting was attended by 66 stakeholders representing legislators, gas gatherers, producers, transmission companies, distribution companies, agriculture and residential consumers, and various state agencies. As information is obtained, it is being placed on the Commission's website at www.kcc.state.ks.us

The scope for the working group is to develop a clear technical understanding of the impact that H₂S has/will have on consumers of unprocessed natural gas within the Hugoton field area and look for alternate means of providing natural gas service to these consumers. During discussion, the scope was expanded to include the impact of low pressure on consumers connected to gas gathering lines.

Because of the complexity and variety of issues that have surfaced regarding this problem, the working group was divided the issues into six teams that will further refine each category and report back to the group as a whole. The categories and teams are as follows:

- Team 1. DATA ACQUISITION
- Team 2. DEFINING THE H₂S CONTAMINATION
- Team 3. PUBLIC AND EMERGENCY RESPONDERS EDUCATION
- Team 4. COMPANY TERMINATION PRACTICES
- Team 5. ALTERNATE MEANS OF SUPPLYING GAS
- Team 6. HUGOTON FIELD RULES FOR MONITORING H₂S LEVELS

Over the last two weeks, it has become apparent to Commission Staff that another team is warranted. That team will attempt to categorize the contractual and policy issues that define the relationships between producers, gatherers, consumers, and state regulators.

Gas Gathering Serving Rural Customers: Background Information

- KCC Staff estimates 3000 consumers are served by gathering lines in the Hugoton Field. The majority of these consumers are irrigation wells.
- Interstate gas transmission companies at one time owned production rights from wells, the gathering system and the interstate pipeline. In the 1970s and 1980s all of this was under FERC jurisdiction.
- In the mid 1990s FERC required interstate transmission lines to divest of all retail customers.
- The interstate companies unbundled the gathering systems and production from the gas transmission lines. At this time, many of the consumer meters were acquired by public utility local distribution companies. The gathering pipelines supplying the meters were sold separately from the end use customer meters.
- In February 2005, Oneok Field Services curtailed its supply of gas to 97 Aquila residential customers.
- In March 2005 Oneok Field Services attempted to curtail the gas suppliers of Midwest Energy regarding supply of gas to 30 residential customers.
- KCC issued an emergency order to stay the termination of gas to the Midwest customers until Oneok Field Services can explain the rationale for the termination and provide evidence demonstrating its necessity.