

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

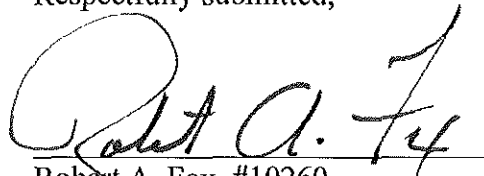
Before Commissioners: Shari Feist Albrecht Chair
Jay Scott Emler
Pat Apple

In the Matter of a General Investigation)
Regarding the Development of Distribution) Docket No. 14-GIMG-514-GIG
Infrastructure for Natural Gas in Rural Kansas)

NOTICE OF FILING OF REPORT AND RECOMMENDATION


Staff hereby files a Report and Recommendation, attached hereto and made a part hereof by reference. The Report and Recommendation discusses recurring issues regarding natural gas Infrastructure development in rural Kansas and makes recommendations regarding the opening of a General Investigation into 6 discrete issues.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert A. Fox", is written over a horizontal line.

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FROM: Leo Haynos, Chief of Gas Operation and Pipeline Safety
Jeff McClanahan, Director of Utilities 

DATE: April 30, 2014

DATE SUBMITTED TO LEGAL: 5/5/14

DATE SUBMITTED TO COMMISSIONERS: 5/13/14

SUBJECT: Recommendation to Initiate a General Investigation Regarding the
Development of Distribution Infrastructure for Natural Gas in Rural Kansas

EXECUTIVE SUMMARY:

Since at least the 1990s, developing gas distribution infrastructure in rural areas of Kansas has been a recurring issue brought before the Commission. In each case, the issue at hand has been resolved and the associated dockets have been closed. However, the continued recurrence of inquiries and concerns expressed by consumers regarding adequate distribution infrastructure in rural areas indicates to Staff the need of the Commission to provide guidance regarding the public interest policies that underlie the development of natural gas distribution infrastructure in rural Kansas.

To that end, Staff recommends opening a general investigation that explores the rights, duties and obligations that should be expected of a gas provider or consumer regarding:

1. Developing or relinquishing certificated territory held by existing public utilities;
2. Allowing open competition/multiple Certificates of Convenience and Necessity to entities wishing to distribute natural gas in rural areas;
3. Providing transparency and objectivity in line extension policies;
4. The appropriate mechanism for recovery of line extension costs that encourages rural development without cross-subsidization of customer classes;
5. The use of customer specific Certificates of Convenience and Necessity and what, if any, obligation to serve exists for the certificated utility to serve future customers; and
6. The ability to access gas supply from interstate pipelines.

Because the proposed docket will be developing policy positions, Staff recommends the comments of interested parties be limited to the above listed six topics. Furthermore, Staff recommends a procedural schedule be established within 90 days of opening the docket in order to move this proceeding to a timely resolution.

BACKGROUND:

In rural Kansas, desire for access to rural gas distribution generally has been from consumers using gas to power irrigation motors or for other agricultural purposes as they are the predominant users of natural gas in this area. Staff notes there are vast areas of Kansas that do not have access to gas service. While we recognize that universal gas service is not economically viable, comments from consumers lead us to believe there are many instances where gas service could be expanded by simply adjusting or clarifying Commission policy.

By far, the largest concentration of potential rural gas customers are found in the area of southwest Kansas that overlies the Ogallala aquifer. Because the aquifer, in turn, overlies the Hugoton natural gas field, natural gas has been the energy of choice to power irrigation pumps since at least the 1940s. Over the last 25 years, the decline in pressure of the Hugoton gas field has affected the general supply of unprocessed natural gas available for irrigation pumps. The dilemma of supplying natural gas for irrigation pumps has been a major topic of discussion in at least two General Investigations undertaken by the Commission in the past.¹ In addition to the Commission's General Investigations, the Kansas Legislature also enacted laws to assist the agricultural industry in obtaining energy supplies by allowing certain exemptions to the Commission's public utility oversight.² Declining availability of gas from wellhead supplies led to a demand for distribution systems to be built to provide the necessary gas service. In response to this demand, public utilities and non-profit utilities (NPU) have applied to the Commission for Certificates of Convenience to provide service to rural gas customers. Appendix 1³ to this memorandum provides a list of the applications made to the Commission over the last 22 years related to providing natural gas service to rural customers. Almost all of these Dockets are related to serving irrigation wells in southwest Kansas. In reviewing the Dockets, many of the same contentious issues recur:

- Public utilities contest the certification of an additional gas provider in territory previously certified to them;
- Consumers contest the cost of acquiring service from public utilities and allege a lack of responsiveness on the part of the utility to meeting their demands in a timely manner;

¹ 99-GIMG-194-GIG: In the Matter of a General Investigation Upon the Commission's Own Motion Into the Challenges and Opportunities Presented by the Decline in Wellhead Pressure in the Western Kansas Natural Gas Fields; 06-GIMG-400-GIG: In the Matter of the General Investigation to Determine a Commission Policy Regarding Customers Served Directly or Indirectly by Gas Gathering Systems

² Rural Kansas Self Help Gas Act K.S.A. 66-2010 et seq.

³ Appendix 1 includes the number of customers for a given certificate docket where known. Staff anticipates completing this table as part of the general investigation.

- Consumers contest the lack of access to gas supply from gas gathering pipelines; and
- NPU's complain of the limited access to gas supply from common carrier pipelines.

ANALYSIS:

The points of contention in this matter can be condensed into two overarching issues. That is, the effect of Certificates of Convenience and Necessity on the development of distribution infrastructure and the line extension policies of existing gas utilities.

Certificates of Convenience and Necessity

The Kansas Public Utility Act⁴ requires each public utility or common carrier transacting business to obtain a certificate from the Commission that finds the business transaction promotes the public interest and allows or licenses the public utility or common carrier to provide such service. In rural Kansas, there are four additional entities that provide natural gas service to consumers:

- NPU's, which are under limited Commission jurisdiction, are still required to obtain Certificates under K.S.A. 66-131;
- Gas Providers⁵ under the Rural Self Help Act are exempt from being considered public utilities and the requirements of K.S.A. 66-131, but they are limited to providing gas service only to customers that qualify as rural gas users;
- Municipal gas utilities serving customers more than three miles from the municipal boundaries are exempt from Commission jurisdiction⁶ but are still required to obtain Certificates under K.S.A. 66-131 for those customers; and
- Interstate pipelines supplying customers directly from the pipeline are involved in interstate transactions beyond the jurisdiction of the Commission.

In cases involving developing gas supply for irrigation load, public utilities with existing certification have protested the proposed distribution systems claiming either the proposed NPU Certificate infringed on the utility's ability to serve potential customers or the customers did not qualify as rural gas users, and therefore, the proposed gas providers needed a Certificate under K.S.A. 66-131.

⁴ K.S.A. 66-131 a) No common carrier or public utility, including that portion of any municipally owned utility defined as a public utility by K.S.A. 66-104, governed by the provisions of this act shall transact business in the state of Kansas until it shall have obtained a certificate from the corporation commission that public convenience will be promoted by the transaction of said business and permitting said applicants to transact the business of a common carrier or public utility in this state.

⁵ K.S.A. 66-2101(f) "gas provider" means any person that provides gas, gas transportation, gas supply management or other gas services and any related facilities associated with delivering gas to a rural gas user;

⁶ K.S.A. 66-104f (a) The rates, charges and terms and conditions of service of a municipally owned or operated electric or natural gas public utility for retail services provided outside of and more than three miles from the corporate limits of the municipality shall not be subject to the jurisdiction, regulation, supervision or control of the state corporation commission, except as provided in subsection...

Staff notes, with the exception of electric service⁷, Kansas law does not limit the Commission from granting Certificates to multiple entities for the same geographic territory. Stevens County, for example, has multiple NPU's and public utilities with overlapping Certificates. In Docket 98-MDWG-658-COC (98-658 Docket), Midwest Energy requested authority to provide natural gas service throughout Stevens County; noting that large portions of Stevens County were unserved by a certificated utility although parts of the county were certificated to eight different entities. The Commission granted that Certificate to Midwest but did not include the territory that had been previously certificated to Black Hills (FKA Peoples Natural Gas). As explained in the Midwest Docket, the purpose of the redundant certification request was to provide consumers with as many options as possible to meet demands for irrigation load. Regardless of the findings in the 98-658 Docket, there have been protests by existing public utilities against the practice of issuing redundant Certificates in rural areas for a given geographic territory⁸ based on the inefficiencies of duplicating natural gas infrastructure and bypassing existing public utility customers. In the protests, the existing public utility has alleged the bypass of customers will strand their investment and result in more costs being allocated to the remaining customers. On the other hand, the applicants allege the existing public utility is unresponsive (or too expensive) in expanding the gas system to meet the rural user's needs.

There are many dockets in which the major gas public utilities in Kansas (KGS, Atmos, Black Hills, and Midwest) have requested Certificates from the Commission in order to provide natural gas service for a given territory (See Appendix 1). In the majority of those dockets, the Commission has simply granted the request of the applicant with no statement from the applicant on the record demonstrating how (and when) the applicant plans to provide service throughout the territory requested. In applications filed by the public utilities, Staff can find no record of the applicant explaining to the Commission their plans for developing service in the territory requested.

Regarding this scenario, Staff recommends the Commission request feedback from interested parties regarding the following questions:

1. Is open access for irrigation customers in the public interest?
2. Is open access for customer classes other than irrigation in the public interest?
3. Does open access already exist in territories certificated to public utilities because of the Rural Gas Self Help Act and the service provided from gas producers since the 1940s?
4. Should public utilities be required to demonstrate their plans for development of infrastructure throughout territory certificated to them?
5. How can public utilities demonstrate to the Commission their current responsiveness to requests for service and development of their certificated territories?

⁷ See K.S.A. 66-1,171 through 66-1,173.

⁸ See Dockets 00-SCOG-135-COC, 06-PEKG-1274-COC, 13-ATMG-741-COM, and 14-4CEG-003-COC.

6. In cases where public utilities protest redundant certification, should the burden of proof be placed on the public utility to quantify how additional competition is not in the public interest?

Customer Specific Certificates of Convenience

While rural Kansas is limited on the availability of gas distribution infrastructure, there is a significant number of gas pipelines located in many parts of this area – particularly southwest Kansas where the majority of irrigation consumers are located. In some cases, operators of gas pipelines that are in private use have been approached by consumers interested in receiving gas service. In these cases, the private pipeline operator or a third party has applied for a Certificate to only serve a customer under the terms of a contract between the customer and the potential public utility. In almost all cases, providing customer specific wholesale or retail service from gas infrastructure not related to gas distribution systems is associated with gas gathering networks. Customer Specific Certificates have been the method the Commission uses to assure that sales of natural gas for “general commercial supply” remain in compliance with K.S.A. 66-131⁹ while allowing the operator of the pipeline delivery system to use the pipe for purposes other than public utility service. This approach has provided consumers the opportunity of receiving gas service in areas where a dedicated public utility distribution system may not be economically viable. Because each customer Certificate also has a unique sales contract negotiated between the parties, the sales price between customers served by the same public utility from the same pipeline often are not the same.

Regarding this scenario, Staff recommends the Commission request feedback from interested parties regarding the following questions:

1. Should the Commission encourage the use of customer specific certification as a means of providing gas service in rural areas?
2. What are the obligations of public utilities with customer specific Certificates to accept additional customers?
3. Should facilities used to supply customer specific Certificates be considered common carrier pipelines?

Line Extension Policies

K.S.A 66-1,202¹⁰ requires a public utility to provide sufficient and efficient service to its customers. Because a Certificate applies to a given geographic territory, it follows that a public utility is obliged to provide service to all customers located in its territory that request service. For public utilities in Kansas, the cost of extending pipelines to new customers is addressed in each company’s tariffs. K.S.A 66-1,203¹¹ requires the public

⁹ See Dockets 00-ANGG-218-COC, 04-AQLG-202-CCS, 08-TKOG-314-COC, 10-AEGG-499-COC.

¹⁰ K.S.A. 66-1,202 Every natural gas public utility governed by this act shall be required to furnish reasonably efficient and sufficient service and facilities for the use of any and all products or services rendered.

¹¹ K.S.A. 66-1,203 Every natural gas public utility doing business in Kansas over which the commission has control shall ...furnish the commission copies of all rules and regulations and contracts between natural gas public utilities pertaining to any and all jurisdictional services to be rendered by such natural gas public utilities...

utility to furnish the Commission with all rules and regulations pertaining to its utility service for Commission review and approval. The three largest Kansas public natural gas public utilities, Kansas Gas Service, Black Hills Energy, and Atmos Energy, have line extension policies as part of their rules and regulations on file with the Commission. However, those public utilities that operate under customer specific Certificates file their tariff or customer specific contracts with the Commission, but as a rule, they do not have line extension policies on file with the Commission. In reviewing the terms of the line extension tariffs of these three companies, Staff notes there is little uniformity in the provisions of the tariffs. Staff also notes the provisions have little to no transparency as to how the public utilities arrive at the subjective decisions of the utility that are included in the line extension policies. Staff contends the impetus for several of the NPU systems being initiated was the lack of understanding between the parties regarding the terms of the line extension policies. Consumers also complain the cost estimates associated with the extension policies are exorbitant, and they question the fairness of placing the entire burden of the line extension on the new customer.

Regarding this scenario, Staff recommends the Commission request feedback from interested parties regarding the following questions:

1. Should the Commission prescribe a set format for line-extension activities?
2. Should such a format include transparency of the quoted price for a line extension?
3. Should the Commission require a line extension policy to include an economic test that compares expected revenues (including life of irrigation) from new customers with the utility's incremental costs? In other words, the utility includes both the incremental costs and the revenues from a line extension when deriving the cost of service for a prospective customer.
4. Should line extension policies include mechanisms such as surcharges that allow a customer to pay its portion of the extension costs over a period of time?
5. Should refunds of customer's contribution be limited to a five year period of usage?
6. Should each customer be informed of the opportunity to appeal to the Commission any terms of a line extension policy?

CONCLUSION AND RECOMMENDATION:

Recent developments in the natural gas industry point to natural gas being the fuel of choice where it is available. Natural gas has historically been the predominant energy source for fueling irrigation pumps but increasingly will require distribution infrastructure to supply gas for this purpose. Over many years and many dockets, there has been a continued recurrence of inquiries and concerns expressed by consumers regarding adequate distribution infrastructure in rural areas. To address these issues, Staff recommends the Commission open a general investigation addressing the above outlined topics regarding Certificates of Convenience and Necessity and the line extension policies of public utilities.

APPENDIX 1:

Chronology of Commission Dockets Relevant to Supplying Natural Gas to Rural Kansas

Docket	Applicant	Miles of Pipeline	Customers Served	Acres covered/ Description
92-PNTG-011-COC	Black Hills			33,280
191,218-U	Anadarko			Request to convert geographic certificate to customer specific
97-UTCG-493-COM	Black Hills	--N/A--	--N/A--	Abandonment case of irrigator served by gathering
98-KNNG-437-COC	Midwest			110,720
98-KNNG-471 -COC	Midwest			7,680
98-AMOG-544-COC	Amarillo	4	1	414,720
98-PNTG-552-COC	Black Hills			1,920
98-SWKG-644-COC	SWKI Stevens-SE	19	17	16,000
98-SWKG-654-COC	SWKI Stevens-NE	51	55	29,440
98-MDWG-658-COC	Midwest			All of Stevens county except 7 sections
98-SWKG-660-COC	SWKI Stevens-North	39	52	32,800
98-SWKG-661 -COC	SWKI Stevens-EC	19	28	25,280
98-SWKG-675-COC	SWKI Spikes North	25	29	13,380
98-SWKG-680-COC	SWKI Stevens- Lower SE	17	37	6,240
98-SWKG-732-COC	SWKI Stevens-HSW	4	6	5,720
98-MDWG-763-COC	Midwest Energy			86,400
99-KCGG-031 -COC	Kearney Cty Irrigators			42,720
99-SWKG-174-COC	SWKI Spikes North	25	29	2,920
99-GIMG-194-GIG	General Investigation			Investigation into challenges caused by declining wellhead pressure
99-MDWG-588-COC	Midwest			10,880
99-MDWG-665-COC	Midwest			3,840
99-PPAG-669-COC	Plains Producers	30	36	19,940
99-MDWG-748-TAR	Midwest tariff for rural customers		450 wells; 24 homes	Finney and Kearney
99-PNTG-758-COC	Black Hills	0	5	Kansas Gas Supply Edwards Cty.
99-PNTG-812-COC	Black Hills			79,360
99-MDWG-827-COC	Midwest			14,080

00-KANG-057-COC	KS Gas Supply		1	
00-SCOG-135-COC	Sublette Consumer Owned Gas System	0	0	Not approved
00-ANGG-218-COC	Anadarko			Request for customer specific cert.
00-KANG-290-COC	KS Gas Supply		3	0
00-MDWG-675-COC	Midwest			34,560
00-KANG-710-COC	KS Gas Supply			
00-MDWG-861 -COC	Midwest			PNG/MDW Swap
01-PNTG- 154-COC	Black Hills			320
01 -GRLG-210-COC	Atmos			3,840
01 -MDWG-345-COC	Midwest			16,640
01 -MDWG-366-COC	Midwest			16,640
01-PNTG-678-COC	Black Hills			3,840
01 -MDWG-680-COC	Midwest			54,400
01 -MDWG-955-TAR	Midwest			Special irrigation tariff
03-AQLG-587-MIS	Black Hills			Converted geographic certificate to customer specific
04-AQLG-985-COC	Black Hills			720
05-AQLG-687-ACT	Black Hills			Recovering costs of customers removed from gathering systems
05-MDWG-879-ACT	Midwest			Recovering costs of customers removed from gathering systems
06-GIMG-400-GIG	General Investigation			Investigation into customers served from gas gathering systems
06-PEKG-1274-COC	Pawnee-Edwards-Kiowa NPU			
08-TKOG-314-COC	Texas Kansas Oklahoma			Customer specific contracts
08-ANGG-295-CCN	Anadarko			
08-MDWG-486-MIS	Midwest			Low BTU gas from gathering serving irrigation load
10-AEGG-499-COC	American Energies			Converted geographic certificate to customer specific

13-ATMG-741-COM	Atmos			Complaint regarding 4-County and the definition of rural gas provider
14-4CEG-003-COC	4 County			4 County Application to form NPU
14-ANGG-119-COM	Anadarko			Complaint regarding Anadarko and customer specific contracts

CERTIFICATE OF SERVICE

14-GIMG-514-GIG

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Report and Recommendation was placed in the United States mail, postage prepaid, or hand-delivered this 13th day of May, 2014, to the following:

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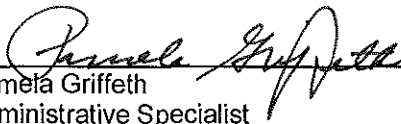
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