

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of )  
Midwest Energy, Inc. Requesting )  
Approval of a Temporary Waiver )  
of the 900 BTU Standard )  
Contained in its Distribution )  
Transportation Terms and )  
Conditions. )

Docket No. 08-MDWG-486-MIS

STATE CORPORATION COMMISSION

NOV 20 2007

 Docket  
Room

**STAFF'S MEMORANDUM**

COMES NOW the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) and files its Memorandum recommending approval of the application of Kansas Gas Service, a Division of ONEOK, Inc. (KGS) to permit electronic transactions.

1. On October 30, 2007, Midwest Energy, Inc. ("Midwest"), Kinder Morgan Interstate Gas Transportation Company's ("KMIGT"), ONEOK Field Services ("OFS"), interested Kansas gas producers, and Commission Staff (collectively, "Indicated Parties") met at the Commission to discuss issues relating to gas quality. One issue addressed at this meeting concerned the ability of local distribution companies to supply gas with heat content sufficient to meet existing tariffs.

2. On November 14, 2007, the Indicated Parties held a conference call to further discuss the issues addressed at the October 30, 2007 meeting. Specifically, the Indicated Parties addressed issues involving gas heat content and Midwest's tariff specifications. During this call, the parties were able to temporarily resolve many outstanding issues.

3. As a result of the informal discussions of the parties, on November 20, 2007, Midwest filed an application requesting a temporary waiver of the minimum natural gas heat content value found in Section 5(B)(3) of its Distribution Transportation Terms and Conditions

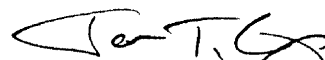
for gas deliveries supplied from the KMIGT Holcomb to Scott City pipeline. Midwest is making this request in order to assist OFS in delivering unprocessed gas from its gas gathering system to the Scott City gas plant. By lowering the heat content to 840 british thermal units per standard cubic foot, (Btu/scf), OFS will be able to return approximately 10 million cubic feet of gas/day, (MMCFD ) to production.

4. Staff has participated in all informal meetings and is familiar with the issues. Further, Staff is familiar with Midwest's filing and has thoroughly reviewed the application. Based on this review, Staff believes the application is in the public interest as it resolves many issues for producers, end users, shippers, and the local distribution company. Thus, Staff recommends approval.

5. Staff's complete analysis of this filing can be found in Attachment "I" to this pleading.

WHEREFORE, Staff recommends immediate Commission approval of the application filed by Midwest Energy, Inc.

Respectfully submitted,



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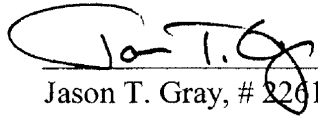
Jason T. Gray, # 22619  
Litigation Counsel  
Kansas Corporation Commission  
1500 SW Arrowhead Road  
Topeka, Kansas 66604  
(785) 271-3119 telephone  
(785) 271-3167 facsimile

For Commission Staff

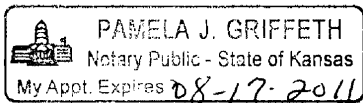
STATE OF KANSAS            )  
  ) ss.  
COUNTY OF SHAWNEE    )

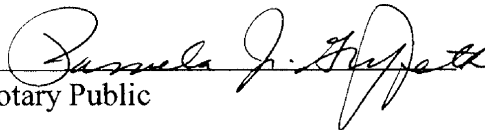
**VERIFICATION**

Jason T. Gray, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Memorandum* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

  
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Jason T. Gray, # 22619  
Kansas Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this ~~20th~~ day of November 2007.



  
\_\_\_\_\_  
Notary Public

My Appointment Expires: *August 17, 2011*



Kathleen Sebelius, Governor  
 Thomas E. Wright, Chairman  
 Michael C. Moffet, Commissioner  
 Joseph F. Harkins, Commissioner

## MEMORANDUM

To: Thomas E. Wright, Chairman  
 Michael C. Moffet, Commissioner  
 Joseph F. Harkins, Commissioner

From: Leo M. Haynos *LMH*

Date Submitted to Legal: 11/20/07

Date Submitted to Commissioners: 11/20/07

DOCKET NUMBER: 08-MDWG-486-MIS

Re: Recommendation to Approve the Application of Midwest Energy for the Temporary Waiver of its 900 Btu/scf Gas Quality Standard Contained in its Distribution Transportation Terms and Conditions

Summary:

Midwest Energy, Inc. (Midwest) is requesting a temporary waiver of the minimum natural gas heat content value found in Section 5(B)(3) of its Distribution Transportation Terms and Conditions for gas deliveries supplied from the Kinder Morgan Interstate Gas Transportation Company's (KMIGT) Holcomb to Scott City pipeline. Although this section of pipeline is a FERC regulated transmission pipeline, it has always transported unprocessed gas. Because of the recent loss of the Bushton gas processing plant, OneOK Field Services, (OFS), has reconfigured its gas gathering system to transport additional gas to its Scott City gas plant. The reconfiguration has resulted in gas of lower heating value being transported on the Holcomb to Scott City pipeline. Midwest is making this request in order to assist OFS in delivering unprocessed gas from its gas gathering system to the Scott City gas plant. By lowering the heat content to 840 british thermal units per standard cubic foot, (Btu/scf), OFS will be able to return approximately 10 million cubic feet of gas/day, (MMCFD ) to production.

In its current tariff, Midwest has agreed to allow natural gas that has a heat content of 900 Btu/scf on its distribution system. The proposed waiver would allow a 7% decrease in the gas heat content to a minimum level of 840 Btu/scf until May 1, 2008. After that time, Midwest proposes to return the gas heat content specification to its current level of 900 Btu/scf. A temporary reduction of 7% in the gas heat content is not expected have any measurable detrimental effect on the end use customer's appliances. Kansas Corporation Commission Staff,

(Staff), recommends approval of the proposed waiver in order to allow OFS and KMIGT sufficient time to reconfigure the gas gathering and transmission system. The system reconfiguration is expected to provide Kansas producers and OFS a long term solution for delivering low quality unprocessed gas to the Scott City gas plant while providing the end use customers connected to the Holcomb/Scott City KMIGT pipeline with processed gas of consistent heat quality at or above 900 Btu/scf.

Background:

The KMIGT operated Holcomb to Scott City pipeline begins just west of the town of Holcomb in Finney County and terminates at the Scott City gas plant located just west of the town of Scott City. Historically, this pipeline has been used to provide transportation of unprocessed natural gas from various gas gathering systems to the gas processing plant. At this time, the sole source of gas supply for this section of pipeline is the OFS operated gas gathering system. In addition to providing transportation service to OFS, the pipeline also delivers gas to Midwest for service to 224 end use customers, (25 commercial, 2 Grain Dyers, 84 irrigation, and 113 residential). Aquila, Inc. also has a delivery point on this pipeline to provide gas service to a large industrial user.

As a FERC regulated gas transmission line, the gas transported on this line is subject to the gas quality specifications proposed by KMIGT and approved by FERC. In its transportation system, KMIGT does not differentiate between processed and unprocessed gas with respect to the minimum heat content specification listed in its tariff. This value is set at 950 Btu/scf; however, the tariff allows KMIGT to waive its Btu limits as long as the waiver does not cause operational problems for KMIGT. As indicated on the attached graph, KMIGT has consistently waived the minimum heat content specification for the last 7 years because there were no complaints from other shippers, (Midwest and Aquila), about the gas quality. Unprocessed gas from the Hugoton field has long been used in Southwest Kansas as a fuel supply for consumers, and it is the only source of supply for Midwest customers connected to this pipeline. As the field depletes, the heat content of the unprocessed gas appears to be decreasing also. This phenomenon is thought to be the result of there being more opportunity for production of lower quality gas along the flanks of the field as the higher quality and more prolific wells are depleted. Although the reconfiguration of the gathering system by OFS may have accelerated the trend of decreasing heat content of the gas on this pipeline, all indications are that lower heat content of unprocessed gas will be a significant issue for all Hugoton area consumers of unprocessed gas.

In early 2007, OFS reconfigured its gas gathering system and routed additional volumes of gas to the Holcomb/Scott City line. The additional flow of gas resulted in a decline of heat content of the gas stream to approximately 840 Btu/scf for the time period of January through May of 2007. During the spring of 2007, Midwest received a complaint from an irrigation customer regarding the heat capacity of the fuel. Although the 840 Btu/scf fuel is still a viable source of energy, its use would require the irrigation customer to resize components of its equipment in order to operate efficiently. In May of 2007, Midwest requested that KMIGT provide gas with heat content of at least 870 btu/scf, and as a result of this request, KMIGT restricted gas deliveries from OFS to this heating value. In order to meet the higher specification, OFS refused to accept

gas with lower Btu values on its gathering system which has resulted in approximately 10 million cubic feet of gas being shut in at the wellhead.

Analysis:

The only statewide standard set by the Commission for the minimum heat content of gas to be supplied to end use customers was established in Docket 34,856-U at a level of 800 Btu/scf. That standard became effective in January of 1961. Since that time, the Commission has allowed the natural gas public utility published tariffs, (that are approved by the Commission), to supersede the 1961 docket. Of the four largest local distribution companies operating in Kansas, Aquila and Kansas Gas Service have adopted the 800 Btu/scf as the minimum heat content for delivery to end use customers while Atmos Energy's tariff has a minimum value of 950 Btu/scf. The current tariff for Midwest does not directly set a minimum heat value for delivery to customers. Rather, Midwest establishes a value of 900 Btu/scf as the minimum heat content that it will transport on its distribution system. By not allowing less than 900 Btu/scf gas on its system, Midwest has indirectly established this value as a limit for supplying its customers. With the heat content of the gas naturally decreasing, Midwest customers connected to the Holcomb/Scott City line have not received gas meeting this specification since August of 2003; however, the slight excursions below the minimum 900 Btu/scf level did not result in any noticeable effects on consumers until OFS dramatically increased the flow of low Btu gas into the system in January of 2007.

It should be noted that the gas supplied from this line for the bulk of the winter of 2006 had a heat content at or below 840 Btu/scf. Other than anecdotal evidence from three customer complaints to Midwest during that time period, Staff is unaware of any potential harmful effects that the consumption of gas with a heating content of 840 Btu/scf will have on consumers' residential appliances. From the few complaints researched by Midwest, it appears the most prevalent complaint will be furnace ignition problems caused by improper burner adjustment. There is a concern that long term use of low Btu fuel will result in premature failure of a furnace heat exchanger; however, there is no evidence to suggest such problems are occurring. In any event, it is Staff's opinion that burning low Btu fuel in residential appliances likely will exasperate the already problematic use of unprocessed natural gas for residential consumption.

The long term solution envisioned as a part of this waiver is that the Holcomb/Scott City pipeline will begin to transport only processed gas by May of 2008. Staff believes the future improvement in supply and gas quality more than offsets the small potential for any problems expected during the 2008 heating season. It is Staff's opinion that the temporary nature of this waiver provides OFS and KMIGT the impetus and the time needed to install the piping necessary to move the unprocessed gas away from the Holcomb/Scott City pipeline. If OFS and KMIGT are unsuccessful at reaching an agreement and reconfiguring the piping, it will be necessary to once more shut in low Btu production.

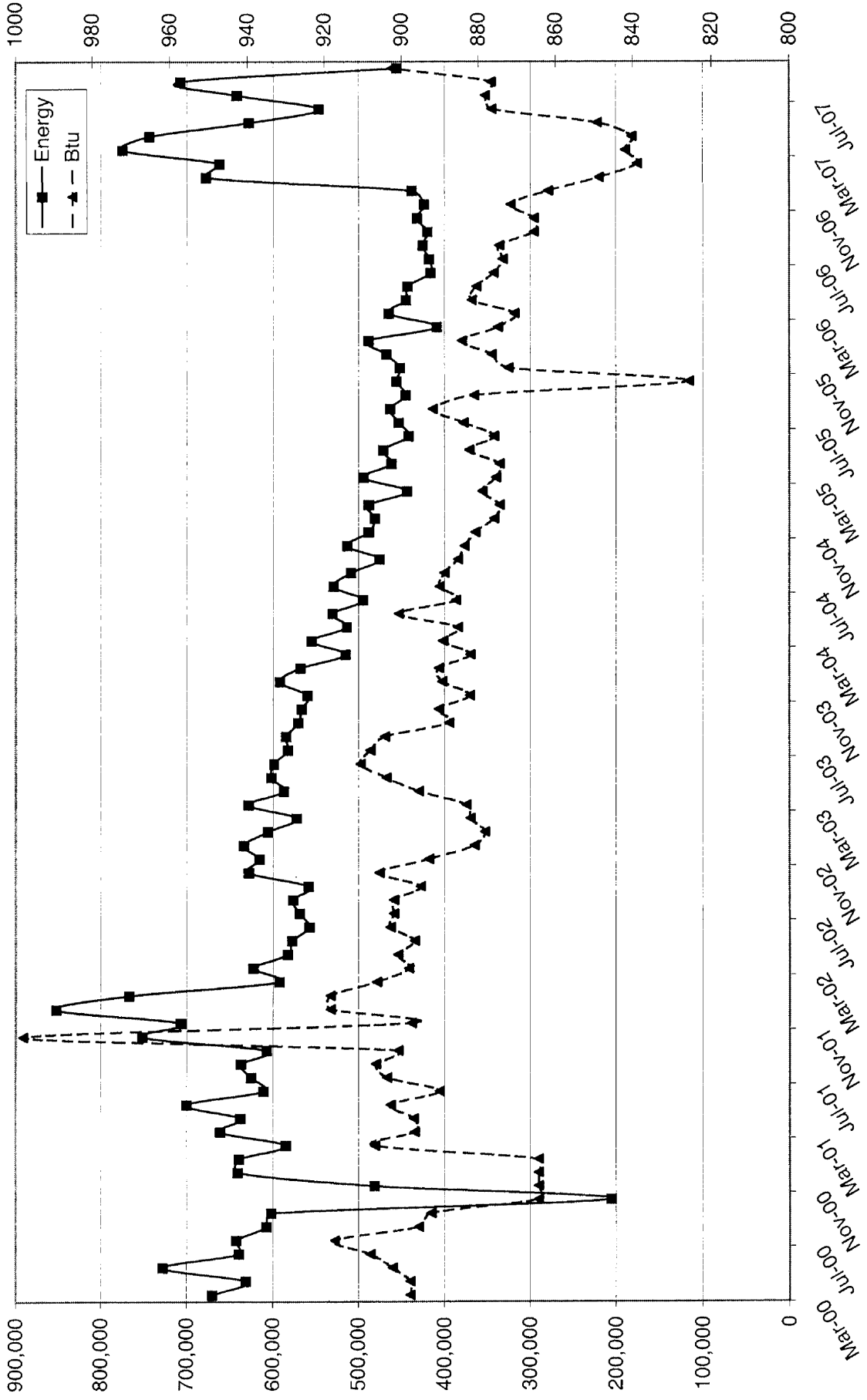
Recommendation:

Staff recommends approval of the proposed waiver to the Midwest tariff to lower the minimum acceptable heat content of gas delivered to Midwest to a value of 840 Btu/scf. This waiver would be effective until May 1 of 2008. At that time, the minimum heat value would return to 900 Btu/scf. This 7% decrease in heating content for a period of five months is not expected to

have any significant effect on the appliances of Midwest residential customers. In order to forestall any problems that may occur from heating with lower Btu gas, Midwest has agreed to educate heating contractors in the Garden City area to consider the heating content of the gas when adjusting a consumer's appliances. Approval of this waiver will provide an interim solution to the shut in gas production in north central Finney County. It also will provide OFS and KMIGT the needed time to reconfigure the gas gathering/transportation system in such a manner that only processed gas will be delivered to the Holcomb/Scott City pipeline. The long term effects of the piping reconfiguration will serve to provide Midwest customers with processed natural gas, and it will provide the gas producers and gas gathering company with a stable route for delivering unprocessed gas to the Scott City gas plant.

Because of the strong desire of producing community to return the shut in wells to production, Staff recommends the Commission take immediate action on this matter. Staff believes that this situation constitutes sufficient good cause to allow the change in tariffs on less than 30 days notices, as permitted by K.S.A. 66-117.

# Holcomb Delivery KMIGT





**CERTIFICATE OF SERVICE**

08-MDWG-486-MIS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Staffs Memorandum was placed in the United States mail, postage prepaid, or hand-delivered this 20th day of November, 2007, to the following:

DAVID SPRINGE, CONSUMER COUNSEL  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604  
Fax: 785-271-3116  
d.springe@curb.kansas.gov  
\*\*\*\* Hand Deliver \*\*\*\*

SUSAN DUFFY, EXECUTIVE DIRECTOR  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
s.duffy@kcc.state.ks.us  
\*\*\*\* Hand Deliver \*\*\*\*

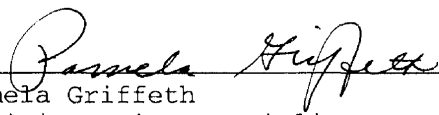
LEO HAYNOS, UTILITIES DIVISION  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
l.haynos@kcc.state.ks.us  
\*\*\*\* Hand Deliver \*\*\*\*

DONALD LOW  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
d.low@kcc.state.ks.us  
\*\*\*\* Hand Deliver \*\*\*\*

PATRICK PARKE, VP CUSTOMER SERVICE  
MIDWEST ENERGY, INC.  
1330 CANTERBURY ROAD  
PO BOX 898  
HAYS, KS 67601  
Fax: 785-625-1494  
patparke@mwenergy.com

ANNE E. CALLENBACH, ATTORNEY  
POL SINELLI SHALTON FLANIGAN & SUELTHAUS  
6201 COLLEGE BLVD  
SUITE 500  
OVERLAND PARK, KS 66211  
Fax: 913-451-6205  
acallenbach@polsinelli.com

FRANK A. CARO, JR., ATTORNEY  
POL SINELLI SHALTON FLANIGAN & SUELTHAUS  
6201 COLLEGE BLVD  
SUITE 500  
OVERLAND PARK, KS 66211  
Fax: 913-451-6205  
fcaro@polsinelli.com

  
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Pamela Griffeth  
Administrative Specialist