

**KANSAS GEOLOGICAL SURVEY
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**KANSAS SUMMIT ON NATURAL GAS
Summary of Conclusions and Recommendations**

by

**State Energy Resources Coordination Council
(SERCC)**

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Kansas Summit on Natural Gas

Summary of Conclusions and Recommendations

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The Kansas Summit on Natural Gas was organized by the State Energy Resources Coordination Council (SERCC)* at the request of Governor Sebelius, to bring together stakeholders to discuss natural gas supply constraints, higher prices, and the impacts these are likely to have on Kansans this winter and into the future. The summit was held in Topeka on October 2, 2003, at the Washburn University Memorial Union (see program below). Approximately 150 people attended the daylong summit to hear presentations from national and state experts and to work together to develop recommendations for future action. This report highlights some of the conclusions and recommendations that emerged from the summit.

Short-term Outlook and Recommendations

Price—Over the summer many Kansans, like consumers across the country, saw a sharp increase in the price of natural gas on their monthly bills. These higher prices are likely to continue through the winter heating season, resulting in higher heating bills for all Kansans and especially impacting those with low or fixed incomes. This will put additional pressure on already strained social service and home-heating assistance programs.

Individuals can reduce consumption (and thereby their heating bills) by implementing conservation and low-cost energy efficiency measures, such as lowering thermostat settings, plugging leaks, adding insulation. SERCC produced and widely distributed a brochure, prepared in cooperation with KSU Energy Extension, describing actions that consumers can take to lower energy bills.

Production—Higher prices have stimulated natural gas production (up 2.5% in the first half of 2003, following a decline of 3% in 2002). However, this will have little effect on the supply and price of natural gas in the short term, as existing production capacity is not capable of meeting the increasing demand for natural gas (which the U.S. Energy Information Administration projects to increase 50% in the next 20 years).

Storage—Due to high levels of injection into storage over the past months, natural gas supplies are within the five-year average range. As of October 10, 2003, natural gas in storage was 2,944 bcf (billion cubic feet), compared to a low of 623 bcf on April 11, 2003, following last year's heating season. By the end of the storage season (November 1, 2003), natural gas storage is projected to be at least 3,025 bcf (and could be higher if recent higher rates of storage continue). Whether this supply will be sufficient to meet demand throughout the winter heating season depends on the weather (see Figure 1). The record demand for natural gas to put into storage has helped keep prices high and drawn natural gas away from some price-sensitive industries such as fertilizer manufacturing.

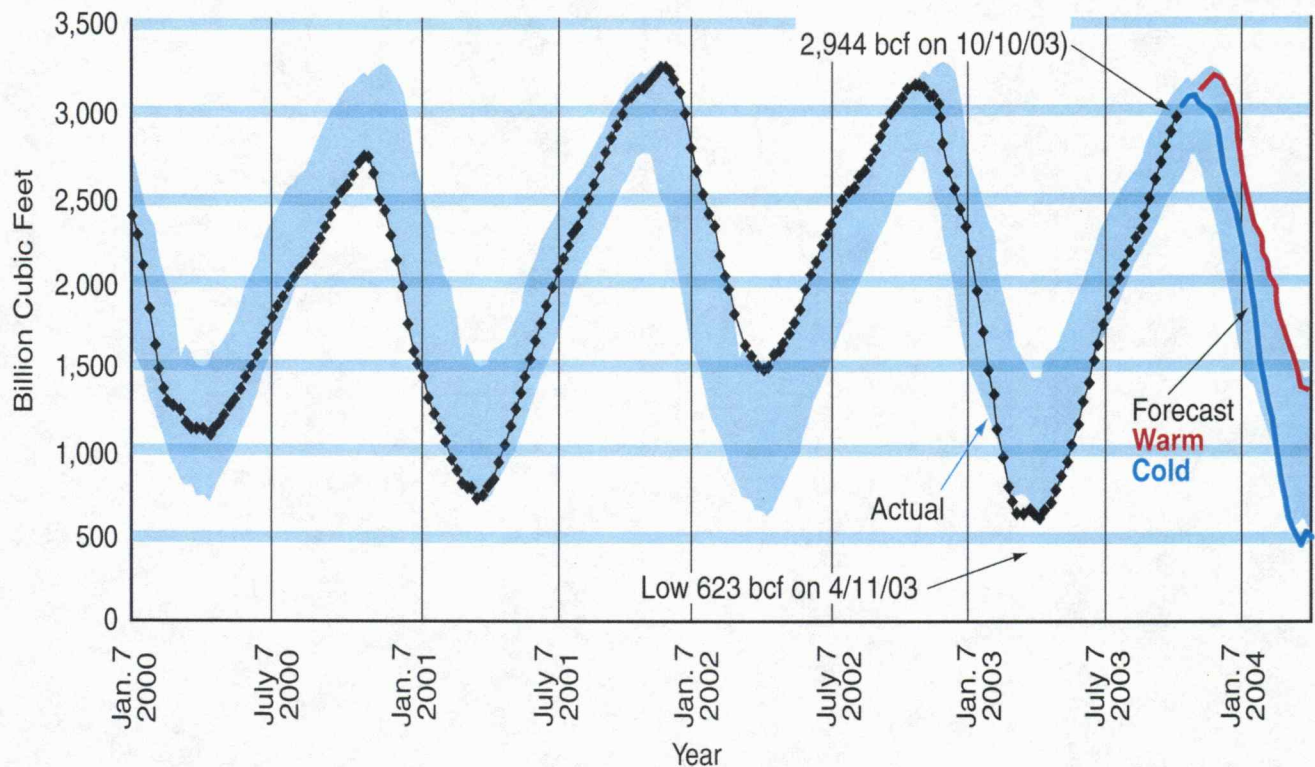


Figure 1—Monthly U.S. natural gas storage, 2000–2003, with projections for the first half of 2004. Colored band shows the normal storage range from previous four years. Projected withdrawal rates for the 2003–2004 heating season are based on withdrawals during the colder than normal 2002–2003 (blue line) and warmer than normal 2001–2002 (red line) heating seasons (Tim Carr, Kansas Geological Survey, personal communication, October 17, 2003).

Recommendations—Because little can be done in the short term to increase production or decrease demand (and thereby reduce the price of natural gas), most of the recommendations developed by the summit attendees address longer-term changes (see below). However, the following recommendations target actions that can be taken immediately to mitigate the impact of higher natural gas prices this winter.

- Increase federal funding for LIHEAP (Low Income Home Energy Assistance Program) allocations and arrange for timelier disbursements (i.e., before onset of cold weather). Contact Kansas Congressional delegation to urge action during this year’s budgetary process.
- Encourage greater cooperation and communication among social service agencies (state and local) and utilities for most effective delivery of LIHEAP and weatherization services.
- Promote multi-sector educational efforts to inform Kansans about high natural gas prices and conservation techniques to reduce energy bills.

Long-term Outlook and Recommendations

This year’s tight natural gas supplies and higher prices are expected to continue for at least the next few years. Resolving the current natural gas issues will involve a variety of changes, including

bolstering natural gas supplies (from domestic production and imports), reducing demand through conservation and energy-efficiency efforts, and greater reliance on alternative fuels (including renewable energy resources).

Currently, SERCC is reviewing all the recommendations brought forward during the natural gas summit for inclusion in its *2004 Kansas Energy Plan*. The following recommendations were developed during four breakout sessions, addressing ways to (1) reduce consumption, (2) increase production, (3) lessen impacts on consumers, and (4) educate Kansans about natural gas issues. They are arranged topically, without ranking or priority, and without assessment or comment.

SERCC

- Sponsor additional stakeholder meetings on energy issues.

Consolidate and fund Kansas energy planning efforts

- Consolidate state energy functions.
- Establish an Energy Policy Office at the Kansas Corporation Commission that has adequate staffing to compile complete energy usage data for all Kansas customers and catalog energy programs in use nationwide.
- Establish a cabinet-level Secretary of Energy.
- Establish funding mechanism for energy planning effort and actions, such as a systems benefit charge (SBC).
- Provide funding for SERCC and energy plan through systems benefit charge (SBC) or other source.
- Explore the possibility of a Universal Service Fund or Systems Benefit Charge to benefit Kansas state conservation and/or low-income assistance efforts.
- Develop a Kansas Renewable Resources Action Plan (KRRAP) for all renewables as part of the state's long-term energy vision.
- Determine the impacts of a Renewable Portfolio Standard (RPS) on Kansas for all renewable resources.

Home heating and low-income consumers

- Lobby federal policymakers for additional Low Income Home Energy Assistance Program (LIHEAP) funding and timelier disbursement of LIHEAP payments.
- Review and potentially revise the Cold Weather Rule. Examine in particular those disconnection / reconnection policies regarding owners and tenants.
- Expand and promote to other utilities the existing Kansas Gas Service billing program to target excessive customer gas usage and develop histories of customer shutoffs by specific dwelling.
- Convene a working group of utilities, Kansas Corporation Commission staff and emergency service providers to analyze shut-off data by neighborhood and target outreach efforts to those areas. After a third payment default shut-off at a rental dwelling, require the landlord to co-sign for reconnection. Train gas inspectors to report on furnace efficiency as well as just the safety of the appliance.
- Limit the amount of bad debt that can be written off, particularly from repeated excessive usage at the same customer dwelling.
- Seek direct state appropriations to assist low-income customers with high heating bills.

Changes to tax law

- Clarify Kansas law so that conservation investments and services are treated equally to that of producing and transporting energy.
- Consider increasing volume threshold on severance tax. Presently the effective tax rate is viewed as excessive by Kansas industry, which inhibits production.
- Encourage the development of a new state income tax return check off to fund conservation and assistance efforts.
- Increase tax incentives for conservation improvements.
- Establish tax policies to encourage energy efficiency rather than production and consumption
- Reduce tax levy on large gas consumers in Kansas so they are competitive with other states. Presently taxes in Kansas force large gas consumers to leave the state.
- Investigate the entire tax structure on gas production to determine ways to encourage expansion and production.

Encourage energy conservation and efficiency

- Dedicate a revenue source for conservation loans and grants especially targeted to low-income homeowners and renters.
- Expand the offering of energy efficiency bonds by the Kansas Development Finance Authority to commercial and industrial customers.
- Train house builders and contractors to serve as home energy raters.
- Expand upon the use of unclaimed utility refunds and deposits for conservation and assistance programs.
- Work with utilities to promote those rate designs that encourage increased customer conservation.
- Develop Integrated Resource Planning for all sources considering sustainability.

Encourage cooperation between state energy assistance programs, agencies

- Increase social agency/utility cooperation/communication for effective LIHEAP and weatherization services
- Provide a state clearinghouse of information on conservation and assistance programs and promote better coordination of information between state agencies, utilities, emergency service providers and other stakeholders.

Expand educational efforts

- Promote multi-sector education efforts.
- Provide expanded customer education to customers on the probable high cost of natural gas and potential conservation techniques to reduce energy bills. Educate customers in Kansas about the value of effective conservation programs, such as those focusing on attic insulation, air infiltration and furnace efficiency.

Changes to oil and gas regulations (KCC)

- Encourage KCC to continue their supportive position on pipeline construction.
- Fast-track pending regulatory changes through temporary regulation process and continue efforts to streamline the regulatory process.
- Raise statutory price caps on severance tax exemptions for incremental production.

- Change the process for appealing gathering rates. The present system inhibits producers.)
- Consider changing responsibility for plugging abandoned wells. It is now with the current or last operator/lease owner. This is a disincentive to new investment.
- Expand the KCC authority to allow for unitization.
- Extend the exemption from severance tax in coal-bed methane production beyond the present two years. The present two-year exemption is not sufficient to encourage investment.
- Consider increasing time period between recertification of low-producing wells to qualify for exemption. Presently it is required annually.
- Investigate ways to reduce cost of access to interstate transmission lines. At present the cost prevents access by some producers. A change requires FERC action.
- Consider severance tax exemptions for low-BTU gas, as well as for technology used to treat low-BTU gas, to promote development.
- Investigate ad valorem exemptions to metering low-volume wells. The present cost of metering is excessive and causes premature well abandonment.
- Allow regulatory changes for temporary abandonment of certain wells in prorated fields.
- Change testing requirements to reduce costs.

Utilities and rate structures

- Write specific Kansas Corporation Commission rules and regulations to define conservation measurements, demand side management (DSM) efforts, ten-year load forecasts and all power supply alternatives as set forth in House Substitute for Senate Bill 263 for determination of future ratemaking principles.
- Encourage utility rate structures modifications to recognize demand side management (DSM) and low income consumers.
- Municipal generation – allow aggregation for efficiency investments
- Encourage demand side management (DSM) by utilities by either carrot or stick or both
- Encourage demand side management (DSM) through rate structures.
- Encourage appropriate rate design.
- Establish utility rates structures and programs to encourage efficiency, not consumption
- Fund more utility technicians that might be able to assist customers with energy conservation ventures.
- Encourage utilities to provide greater assistance to customers on energy efficiency issues.
- Encourage greater utility flexibility and creativity in enforcing the Cold Weather Rule.

Hugoton natural gas field

- Re-examine horizontal drilling restrictions in Hugoton field. Consider regulatory changes.
- Provide incentives to encourage investments in existing prorated gas fields (Hugoton, Panoma, Greenwood). Implement programs that will encourage producer reinvestment in Kansas. Compare Kansas incentives to other states to assure they are competitive.
- Investigate testing requirements for minimum production wells in the Hugoton and other prorated fields.
- Consolidate field operations among companies to optimize operation in the Hugoton.
- Investigate changes in regulation to continue production at Hugoton. Industry and the KCC should continue their discussion on regulatory changes needed to extend the life of the field.

- Remove or change method of determination for gas allowables in declining prorated fields (Hugoton, Panoma, and Greenwood).
- Consider allowing additional infield drilling in the Hugoton and associated fields.

Next Steps

In the next month, SERCC members will review all the recommendations from the natural gas summit as they develop their final recommendations for inclusion in the *2004 Kansas Energy Plan*. Adopted recommendations will be divided into those for legislative action, for SERCC action, and for further study.

* The State Energy Resources Coordination Council (SERCC) is a 13-member group, charged by the Governor with studying and making recommendations concerning the state's energy situation and publishing an annual energy plan for the Kansas Corporation Commission, the Governor, and the Legislature. The council was established in 2002 by Governor Graves (Executive Order 2002-4). Lee Allison, director of the Kansas Geological Survey, is the chair of the council; Brian Moline, Kansas Corporation Commissioner, is the vice chair. More information about SERCC is available online at www.kansasenergy.org.

Kansas Summit on Natural Gas Program

October 2, 2003, 8:00 a.m.–4:00 p.m.
Washburn University Memorial Union, Topeka, KS

- 8:00 Registration**
- 8:30 Plenary Session**
Introductory remarks—*Lee Allison, moderator, SERCC Chair, Kansas Geological Survey Director*
- 8:40 Welcome**—*Dr. Jerry Farley, President, Washburn University*
- 8:50 Challenges and goals**—*Governor Kathleen Sebelius*
- 9:00 Session I: Overview of natural gas supply and price**
U.S. perspective—*Patty Morrison, Assistant Secretary, U.S. Department of Interior*
Outlook for the Natural Gas Industry—*Paul Wilkinson, American Gas Association*
Where does our gas come from and where does Kansas gas go?—*Tim Carr, Kansas Geological Survey*
How does the natural gas system work?—*Brad Dixon, Vice President, Western Region, Kansas Gas Service*
- 10:15 Q & A**
- 10:30 Break (15 min)**
- 10:45 Session II: Economic impacts on Kansas**
Residential and smaller commercial consumers—*David Springe, Citizens' Utility Ratepayer Board (CURB)*
Industrial and larger commercial consumers —*Richard W. Schuck, Energy Support Providers, LLC*
Agriculture and agricultural consumers—*Carole Jordan, Director of Rural Development & Legislative Initiatives, Kansas Department of Agriculture*
- 11:45 Q & A**
- 11:55 Breakout sessions and objectives**—*Lee Allison, moderator*
- 12:00 Lunch**—**Pick up box lunches in lounge**
- 12:45 Concurrent Breakout Sessions**—panels and roundtables
- Breakout Session I (Vogel Room): What can we do to reduce consumption or demand?**—*Bruce Snead, KSU Engineering Extension, moderator*
Conservation and efficiency—*Bruce Snead, KSU Engineering Extension*
Energy Services—*Brian Dreiling, Midwest Energy*
Fuel switching by utilities and industry—*Richard W. Schuck, Energy Support Providers, LLC*
Role of renewables in electricity, heating—*Richard Nelson, KSU Engineering Extension*
- Breakout Session II (Kansas Room): Can we increase natural gas production, transmission, storage and supply?**—*Dick Hayter, KSU College of Engineering, moderator*

Production, transmission, or storage bottlenecks or restrictions—*Jim Harder, Southern Star Central*

Regulatory effects—*M. L. Korphage, Director of the Conservation Division, Kansas Corporation Commission*

Tax policies—*Steve Stotts, Director of Taxation, Kansas Department of Revenue*

Kansas gas production opportunities—*Steve Dillard, Kansas Independent Oil & Gas Association (KIOGA)*

Breakout Session III (Washburn B): How can we lessen the impacts on residential consumers and businesses?—*Colin Hansen, Kansas Municipal Utilities, moderator*

Assistance programs – *Paul Johnson, Kansas Public Assistance Coalition*

Utility programs for consumers—*Jim Bartling, manager public affairs, Atmos Energy*

Federal programs—*Norma Phillips, Kansas Housing Resources Corporation, Weatherization*

Effects on agriculture—*Steve Irsik, Rancher, Farmer, Dairyman, and Chair of Lt. Governor's Mini Economic Summit*

Breakout Session IV (Shawnee Room): How do we educate Kansans about natural gas issues?—*Denise Manning, Atmos Energy, moderator*

Government—*Marge Petty, Kansas Corporation Commission*

News Media—*Steve Everly, Kansas City Star*

Utilities—*Lori Webster, communications manager, Kansas Gas Service*

Education—*Shari Wilson, Kansas Association for Conservation and Environmental Education*

2:30 Break (30 min)

3:00 Plenary Session—*Lee Allison, moderator*

Reports by breakout session moderators:

Reducing demand—*Bruce Snead, KSU Engineering Extension*

Increasing supply—*Dick Hayter, KSU College of Engineering*

Providing assistance to consumers—*Colin Hansen, Kansas Municipal Utilities*

Educating Kansans—*Denise Manning, Atmos Energy*

Summary of next steps, concluding remarks—*Lee Allison, moderator*

4:00 Adjourn