receipt

Exhibit No.:	
Issue:	Proposed Conditions
Witness:	Christopher C. Pflaum
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GM-2001-585

LACLEDE GAS COMPANY

REBUTTAL TESTIMONY

OF

CHRISTOPHER C. PFLAUM

August 2001

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Gateway Pipeline Company, Inc., Missouri Gas Company and Missouri Pipeline Company.	))))	Case No. GM-2001-585

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Christopher C. Pflaum, of lawful age, being first duly sworn, deposes and states:

1. My name is Christopher C. Pflaum. My business address is 9401 Indian Creek Parkway, Suite 360, Overland Park, KS 66210; and I am President of Spectrum Economics, Inc.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony, consisting of pages 1 to 19, inclusive.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

CCPflaum

Christopher C. Pflaum

Subscribed and sworn to before me this 10th day of August, 2001.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005

REBUTTAL TESTIMONY
OF
CHRISTOPHER C. PFLAUM

Q. Please state your name and business address.

A. My name is Christopher C. Pflaum. My business address is 9401 Indian Creek Parkway, Suite 360, Overland Park, KS 66210.

Q. What is your occupation?

A. I am President of Spectrum Economics, Inc., a firm of consulting economists and financial analysts.

Q. What is your educational background?

A. I have an MBA with a concentration in Finance from the University of Miami and a Ph.D. in Finance and Operations Management from the University of South Carolina. Much of my post-graduate work was involved with public utility economics. My doctoral dissertation is entitled *The Cost of Capital to a Public Utility*.

Q. What is your previous experience in utility rate matters?

A. I have spent most of my professional life working in the area of public utility regulation. From 1982 through 1984, I was Senior Financial Economist and Acting Director in the Revenue Requirements Program of the Policy Analysis and Research Division of the Illinois Commerce Commission. In 1984 and 1985 I was employed as Director of Financial Analysis at the utility consulting firm of Lubow McKay Stevens and Lewis. Following that, I was employed by QED

Research, Inc., also a utility consulting firm. Through a series of spin-offs starting with QED, Spectrum Economics came into existence.

I have published and spoken extensively in the area of public utility regulation and finance including serving on the faculties of the NARUC Regulatory Studies and Advanced Regulatory Studies programs.

I have also presented papers at the Iowa State Regulatory Conference, The Biannual Regulatory Information Conference and annual meetings of the National Society of Rate of Return Analysts and the Mid-America Regulatory Conference. While employed by the Illinois Commerce Commission, I served as chairman of the Subcommittee on Finance of the NARUC.

Over the last twenty years, I have testified in numerous cases in several jurisdictions including Missouri, Kansas, Illinois, Texas, Arizona, California, Indiana, Wisconsin and Arkansas, the Federal Energy Regulatory Commission and the Federal Communications Commission. I have also served as a consultant to the U.S. Department of Energy, the American Public Gas Association and numerous utilities and customer groups. A copy of my curriculum vita is attached to this testimony as Schedule 1.

Q. **What is the purpose of your rebuttal testimony in this proceeding?**

A. The purpose of my rebuttal testimony on behalf of Laclede Gas Company (Laclede) is twofold. First, I will discuss a number of concerns that the Commission should have regarding the proposed acquisition of Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC) by Gateway Pipeline

Company, Inc. (Gateway) in light of its principal owner's experience in overseeing pipeline operations serving other local distribution companies (LDC) in Kansas and Missouri. Specifically, I will describe some of the financial, regulatory, litigation and reliability concerns that have arisen in connection with these operations that I believe warrant disapproval of the proposed acquisition. Second, if the Commission should nevertheless decide to approve Gateway's application, I will describe specific conditions to lessen any detrimental impact of the transaction on Missouri gas consumers that I believe the Commission should adopt in connection with any approval of the proposed acquisition.

Q. Have you provided testimony in other cases regarding the pipeline operations that were previously owned and operated by the principal owner of the acquiring company in this matter?

A. Yes. The applicant, Gateway is a Delaware corporation. Based on the information that I have received to date, it appears that Gateway would be principally owned and controlled by **_____________. __________ ** is the prior owner of The Bishop Group (Bishop); an organization that owned and operated pipelines in Kansas, Missouri and Oklahoma. I have testified, on behalf of Williams Natural Gas, in three previous matters regarding Bishop, two in Kansas and once in Missouri.

Q. Why is Laclede concerned with who owns Missouri Pipeline Company or Missouri Gas Company?

A. Laclede is the largest recipient of the natural gas supplies delivered through MPC's facilities, with the right to take 55,000 MMBtu per day of the line's 85,000

Mcf/d capacity. While supplies delivered through MPC represent only about 10% of Laclede's total annual requirements, such supplies represent the only current source of gas for some of Laclede's customers. Therefore, it is an important component of the supply on which Laclede depends to meet the needs of its customers. Laclede has always striven to provide reliable, reasonably priced gas service to its customers. As part of that effort, Laclede is especially concerned with maintaining reliable access to the critical pipeline facilities that are necessary to deliver gas supplies to the Company's distribution system and with protecting its customers from inflated gas costs that are increased for reasons unrelated to competitive market conditions.

Q. Why should the Commission be concerned about Gateway Pipeline Company?

A. As I previously indicated, the pipelines previously overseen by the principal owner of Gateway have been involved in a significant array of litigation relating to gas supply and transportation arrangements. In some instances, the litigation preceded the implementation of these arrangements while in others it arose out of cost or reliability issues that emerged after the arrangements had gone into effect. In almost all instances, however, an overriding element in such litigation was that it resulted in the implementation of a gas supply and/or transportation arrangement that was either priced well above other service alternatives or was necessitated by the need to deal with the fallout from such an arrangement. To the extent the proposed acquisition is approved in this case, the Commission should make certain there are reasonable safeguards in place to ensure that similar issues and concerns that could have a detrimental impact on its customers do not arise here.

Q. Can you provide some examples of such litigation and the gas supply and/or transportation arrangements that followed or preceded them?

A. Yes. Such examples include the following:

Kansas Pipeline Partnership (KPP), controlled by **__________**, received its first gas transportation contract with Western Resources, Inc. (WRI) after intervening in a rate application. After the contract was secured, KPP persuaded WRI to lift the price ceiling on its contract from the rate charged by the dominant pipeline, Williams Natural Gas (Williams), to a level based on cost of service. Subsequent to the lifting of the contract cap, in 1994, KPP filed for a further increase in rates based on a hypothetical cost of service. The contract amendment alone has resulted in over $13 million per year in increased costs to Kansas gas consumers over the past six years.

KPP secured a transportation contract for gas with United Cities Gas (UCG) shortly after it intervened in UCG's Kansas rate case. After securing the contract, KPP withdrew its intervention. Although this contract was on far better terms than WRI's, it was still at a cost above that of Williams.

KPP secured contracts to construct a small pipeline and provide bundled gas and transportation services at very high rates to several Kansas communities in settlement of litigation with WRI regarding the so-called "Linchpin" and

"Wraparound" contracts. Once again, these contracts have cost consumers tens of millions of dollars in unnecessary costs over their duration.

Bishop affiliates, Mid-Kansas and Riverside Pipeline, secured high cost contracts with MGE as the result of settling the Linchpin and Wraparound contract lawsuits.

KPP is currently in litigation with WRI's successor in Kansas, the Kansas Gas Service division of Oneok, over KPP's alleged breach of the Linchpin and Wraparound settlements.

The total excess costs to consumers as a result of these arrangements have been substantial and according to my testimony in the dockets seeking KCC approval of these arrangements would have allowed KPP to earn 151% rate of return. In Case Nos. GR-94-101 and GR-94-228, it was also estimated that the total excess cost to Kansas and Missouri consumers of the various uneconomic contracts with ** ________**-affiliated entities, barring regulatory intervention, would have been $547 million. Because of claims made at the KCC and FERC that regulatory action would lead to financial ruin, however, both the KCC and FERC have maintained KPP, KNP, Riverside, etc. rates at levels well above any reasonable estimate of the cost of service.

Q. Have pipelines operated or owned by The Bishop Group experienced operational problems in Kansas?

A. Yes, they have. Kansas Pipeline interrupted firm service to WRI (presently Kansas Gas Service) and United Cities Gas in the winter of 1993/94 in connection with a delivered supply arrangement.

Q. How did this serious interruption occur?

A. The interruptions by KPP seem to have occurred because it was using interruptible transportation on interstate pipelines to provide firm delivered service on KPP. During the time period in question, interruptible service was fairly firm and the risk associated with the mismatch was small but not non-existent. KPP risked service reliability to its customers and its customers would have been interrupted had Williams not stepped in to make up for the lost supplies. I have included in Schedule 2 to my rebuttal testimony, various materials which illustrate the seriousness with which this lapse in reliability was taken by the parties who were affected, including copies of the correspondence between Bishop and WRI, internal memos, and a copy of the complaint and request for emergency show cause proceeding that WRI filed with the KCC.

Q. Please explain how Bishop entities have used claims of financial distress as the basis for rate increases.

A. In its Kansas rate case, Bishop made numerous, nontraditional claims for why its rates should be increased. Among these were that it should be allowed to claim the capitalized losses of an unrelated predecessor as an element of rate base. The claim was framed that the losses were market entry costs. The KCC ultimately rejected these arguments and established a cost of service of $22 million. Bishop then appealed to the KCC that the return on this level of investment would be insufficient to meet the indenture coverage ratios on its debt. This debt greatly exceeded KPP's utility investment and KPP never did provide the KCC with an accounting of the uses of these funds. Rather than see a Kansas utility fall into bankruptcy, the KCC permitted a revenue requirement of $31 million, an amount sufficient to cover the indenture requirements. After FERC asserted jurisdiction over KPP because of action undertaken by its management, KPP repeated these financial need arguments in its FERC case when the FERC found that the KPP rate base and cost of service were inflated.

Q. Why is the possibility of financial distress claims of concern in this matter?

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Q. ______?

A. ______.

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Q. How could FERC exerting its jurisdiction lead to higher rates for Missouri gas consumers and burden other customers with stranded investment?

A. First, FERC jurisdiction would virtually guarantee approval of any effort by Gateway to bypass Laclede or other LDCs – a result that would burden smaller customers with additional fixed cost responsibility as the revenues currently contributed by larger customers would be lost to Gateway. **

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Q. Has this Commission recognized the poor track record that the owners of Gateway have compiled with their previous ownership and management of pipeline facilities in Kansas and Missouri?

A. Yes, according to the previously mentioned initial decision in FERC Docket No. RP99-485-000h the Commission has not only recognized these deficiencies, but has made every effort to bring them to FERC's attention. As the initial decision in that case notes:

> According to MoPSC witness Morrissey, various actions by KPC's previous owners and managers have negatively affected the KPC's rates, its relationship with its customers, its regulatory affairs, and its business operations. MoPSC witness Morrissey contends that "various acquisitions and changes in KPC's ownership have produced increased costs that have not resulted in corresponding benefits to ratepayers.... [and that] KPC's owners and managers have repeatedly made decisions which have been to their benefit while being detrimental to its ratepayers." Moreover, the lack of adequate internal controls has allowed KPC's operating expenses to exceed reasonable levels, which has resulted in KPC's cost-of-service being driven to a level where it is not competitive with other pipelines.
>
> MoPSC believes that above-market prices have prevented KPC from increasing its market share and have eroded its current market. The increased prices have further caused dissension among KPC's customers and state regulatory bodies, thereby triggering contractual disputes and prudence reviews. MoPSC states that all of these factors are the result of KPC's own inefficient management. Commission policy requires that under such circumstances, KPC's owners, not its customers, must bear the burden of shouldering the costs that result from KPC's increased business risk. *Id p. 54.*

Obviously, there is not a great deal that Laclede can add to the very serious concerns that have already been identified and expressed by the Commission itself regarding the track record of Gateway's owners other than to observe that they create a very strong presumption that the proposed acquisition would be detrimental to the public interest. Clearly any repetition of the kind of litigation, service problems and excess cost concerns described above in connection with MPC and MGC would present the LDC and potentially the Commission with a Hobson's choice. For the LDC it could be the choice of whether to enter into litigation over contractual matters relating to the cost or reliability of pipeline service, while simultaneously risking a potential loss of service, or to agree instead to a financial solution that may maintain service, but only at a potentially significant increase in the cost of gas service to its customers. For the regulator, the Hobson's choice between cost and reliability could, of course, be just as severe. Those are choices, Missouri LDCs and their customers shouldn't have to face and to ensure they do not in this case, I recommend that the proposed acquisition not be approved.

Q. Doesn't your recommendation result in an impairment of the existing owner's property rights to sell its facilities?

A. As a general matter, I believe that utilities, just like other firms, should be given wide latitude in their exercise of such rights. However, property rights are not absolute. Every public utility that purchases or constructs facilities dedicated to a public use accepts certain limitations on how such facilities may be transferred to a new owner. Specifically, they must recognize that any subsequent sale of used and useful facilities will necessarily be conditioned on whether the proposed buyer has the requisite attributes to provide the Commission with reasonable assurances that the transfer will not be detrimental to the public interest. In some exceptional cases, such as this one, that minimum standard will not be met.

Q. Should the Commission nevertheless decide to approve all or part of the proposed acquisition, what conditions do you believe the Commission should impose on this transaction?

A. Given the legal uncertainties over the Commission's ability to formulate conditions that cannot be circumvented through an assertion of FERC jurisdiction or otherwise, I do view the imposition of conditions as an ineffective substitute for disapproval. Nevertheless, if the Commission decides to approve the proposed transaction, I believe it is essential that very clear ground rules be established at the outset to govern the service relationship between MPC, MGC and its existing customers following their acquisition by Gateway. Specifically, I recommend that approval of the acquisition be conditioned on the following requirements:

1) MPC and MGC should be required to continue to provide firm transmission (FT) service to existing users of the pipelines, including Laclede, at rates reflecting their cost of service, provided that such rates should be capped for a period of not less than 5 years. This rate cap should include a prohibition on any type of rate restructuring, including any changes that would establish rate or zone boundaries or require an LDC to purchase services that have traditionally been included as part of MPC's or MGC's tariffs.

2) MPC and MGC should be at risk for any loss of transportation volumes or any incremental expenditures designed to increase the throughput capability of the pipelines. Should MPC's or MGC's revenues fall because customers leave it or its capital or operational costs increase above the amounts currently reflected in rates in order to serve new loads, the pipelines should not be permitted to raise their rates to existing users to make up that shortfall.

3) MPC and MGC's certificate should continue to forbid it from bypassing the LDCs it serves and from providing direct service to industrial customers.

4) MPC and MGC should be required to provide existing users, including Laclede, with a right of first refusal to continue to take up to their existing contract entitlements for firm transportation.

5) MPC and MGC should be prohibited from taking any actions that would subject them to FERC jurisdiction without prior approval of the Commission. **____.**

6) MPC and MGC should be required to submit plans showing that its addition of any firm transportation customers that increase its peak throughput will not impose additional costs or lessen service reliability to existing users of the pipeline.

7) Finally, to ensure reliability, MPC and MGC should be obligated to use firm services on interstate pipelines, whenever obligated to provide a firm delivered service to its customers.

Q. Why is it necessary to impose a rate cap on MPC and MGC?

A. The imposition of a rate cap will prevent litigation or threats of service interruptions from being used to secure rate increases. Given the history of litigation that I previously discussed, I believe such a condition is essential in that it greatly limits the effectiveness of this strategy.

Q. Why shouldn't MPC and MGC be permitted to establish rate territory

boundaries or restructure its rates?

A. For the rate conditions to work effectively, it is critical that indirect increases not be sanctioned through the simple device of changing existing rate boundaries or restructure its rates. This condition will prevent such a result from occurring.

Q. How can changing the existing rate boundaries or structure cause detriment?

A. For example, Laclede takes service from MPC on various points including the St. Louis city gate and at connections on the boundaries of small towns outside the metropolitan area. All this service is at a single rate. By establishing rate boundaries, Gateway could raise additional revenues based on Laclede's take points. On two separate occasions, in relation to the assets involved in the instant proceeding, Case Nos. GR-92-314 and GA-95-231, this Commission has rejected the establishment of rate boundaries or zoned rates. Any attempt to establish rate boundaries should be considered as a form of "back door" increase in overall rates and a detriment to gas consumers. This detriment can be prevented by the Commission by not allowing the pipelines from establishing zoned rates or rate boundaries. Another form of "back door" increase that the Commission should guard against is a rate restructuring. By either unbundling or rebundling services, Gateway could attempt to extract additional monies without adding any value to its standard tariff services. The Commission should not permit any changes to standard tariff services during the 5 year rate cap.

Q. How is public detriment avoided by preventing MPC and MGC from adjusting rates in response to lost volumes or to reflect the incremental costs required to serve new loads?

A. Like the rate cap condition, such a requirement prevents the rates paid by existing users from being increased indirectly because service problems have driven customers off the system, thereby decreasing the volumes over which the fixed costs of the pipeline can be spread or because uneconomic decisions have been made to serve new loads that cannot pay for the incremental investment.

Q. Why should Gateway be barred from serving retail load through MPC and MGC?

A. MPC and MGC are certificated as intrastate pipelines not local distribution companies. It has been this Commission's policy that intrastate pipelines are not allowed to bypass the LDC's that they serve to directly connect with the LDC's customers. The benefit of such a policy is clear: it prevents the pipeline from cherry picking large profitable loads and leaving behind stranded LDC investment to be collected from captive, human needs consumers. The present owner is operating under such a restriction.

Q Why should Gateway, through MPC and MGC, be required to provide existing users of their system with a right of first refusal?

A. In the past, regulation has recognized the need to provide incumbent LDC users of pipeline facilities with a mechanism to preserve their traditional access to such facilities, particularly where such access is needed to maintain service to firm customers. A right of first refusal would accomplish this goal by giving existing users of the pipeline the opportunity to match any offer to take service by a new customer up to a level equal to the existing users contract entitlement. In light of the previous concerns I have expressed, I view this protection as critical.

Q. **____

____________________________________?**

A. ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____ ____.**

Q. What level of service will be necessary from Gateway Pipeline?

A. Gateway Pipeline must provide the same high-pressure supply, and hourly volume flexibility comparable to MPC's present service level in order for Laclede to meet its customers' demands. Any significant additional firm subscription to the Gateway pipe in the future without additional compression or pipe installation would erode service to Laclede, thereby jeopardizing service to Laclede's customers.

Q. Please discuss the condition that you believe the Commission should impose to address this concern.

A. As part of any Order approving the proposed acquisition, the Commission should require that prior to adding any additional firm subscription that would increase peak throughput on MPC's or MGC's system above existing levels, Gateway must submit a plan for Commission approval detailing what measures will be taken to ensure that such increased throughput will not jeopardize service to existing users and verifying that any costs incurred to provide such assurance will not be paid by existing users.

Q. Does this conclude your testimony?

A. Yes, it does.

SCHEDULE 1

Christopher C. Pflaum, Ph.D.
President
Spectrum Economics, Inc.

GENERAL

Dr. Pflaum is the President of Spectrum Economics, Inc. He specializes in financial and regulatory policy analysis and the implications of those policies for firms operating in markets undergoing fundamental structural change. Dr. Pflaum also consults and testifies in civil litigation in the areas of antitrust, fraud, breach of contract, trade secrets disputes, business interference, business valuation, and lost earnings and profits.

WORK HISTORY

Principal, Spectrum Economics, Inc.
Director of Financial Research, Lubow McKay Stevens & Lewis
Acting Director and Senior Financial Economist, Illinois Commerce Commission
Faculty, Finance Department, Southern Illinois University - Carbondale
Faculty, Finance Department, East Tennessee State University

EDUCATION

Ph.D. in Finance and Operations Management, University of South Carolina
MBA with concentration in Finance, University of Miami
BA in English, St. John's University

ARTICLES AND PAPERS

"Applying Daubert in Antitrust Litigation," with Ed Mansfield. Trade Regulation Section Newsletter, published by the Trade Regulation Section of The Iowa State Bar Association. Winter, 1998.

"Historical Averages and The "Real Rate" of Interest," with Eric C. Frye and Steven S. Duncan. Litigation Economics Digest. Summer 1997. Volume II, Number 2.

Local Gas Distribution Companies and Pipeline Market Power: Workable Competition or Unregulated Monopolization, with R. Lemon. American Public Gas Association, 1991.

"The Effects of the Tax Reform Act of 1986 On Energy Investment," Chapter in 1988 Energy Development Report, for the California Energy Commission.

"Regulatory Implications For Asset Valuation in Leveraged Buy Outs and Spin-Offs," with R. Trout and K. Zumwalt Proceedings: Biannual Regulatory Information Conference, National Regulatory Research Institute, Columbus, Ohio, 1986.

Electric Rate Shock: Origins, Prospects and Remedies, with Charles River Associates, for the U.S. Department of Energy, June, 1986.

"Depreciation Policy, Competitive Forces and The Cost of Capital," Proceedings: Iowa State Regulatory Conference, Ames, Iowa, 1986.

"Risk of Large Loss and Utility Capital Budgeting," with K. Zumwalt, Proceedings: Biannual Regulatory Information Conference, National Regulatory Research Institute, Columbus, Ohio, 1984.

"Restructuring the Troubled Electric Utility Industry: A Discussion of Three Approaches," with M. Collins, J. Gilan, et al., Illinois Commerce Commission Monograph, September, 1984.

"The Louisa Phase-In", with M. Collins, Illinois Commerce Commission Monograph, June, 1984.

"Regulatory Aspects of Bond Refunding," with M. Gombola, Eastern Finance Association, 1982.

"The Cost of Capital to a Public Utility," Illinois Commerce Commission, 1981 (contract research, also title of Ph.D. thesis partially supported by this grant)

"Leverage, Taxes and the Cost of Capital to a Public Utility," with L. Brooks, Financial Management Association, 1981.

"A Capital Asset Pricing Theoretic Model of Alternative Views of Regulation," Eastern Finance Association, 1979.

"Further Evidence on the Stationarity of Beta Coefficients," with R. Roenfeldt and G. Griepentrog. Journal of Financial and Quantitative Analysis, March, 1978.

"An Examination of the Effects of the Rambouillet Accord on Exchange Rate Stability," Southern Finance Association, 1977.

SEMINARS AND SPEECHES

"Using a Defense Damages Expert" International Association of Defense Counsel Trial College, Boulder, CO, July 25, 2000.

"Using Inflation Indexed Securities to Cool Damages," presented at the National Association of Railroad Counsel Meeting, Breckenridge, CO, February 2000.

"Evaluating Economic Damages in Personal Injury" for the Nebraska Association of Defense Counsel, Omaha, NE, May 7, 1998.

"The Role of the Economist in Litigation" and "Business Damages an Analytical Framework" CLE for The Williams Companies, Inc., Tulsa, Oklahoma, October, 1997.

"Primer on Statistics for Attorneys" CLE for Sonnenschein, Nath & Rosenthal, Kansas City, Missouri, March, 1997.

"Economics: Just Because It's Dismal Doesn't Mean it has to be Junk" presented at the National Association of Railroad Trial Counsel Meeting, Park City, Utah, February, 1997.

"Evaluating Economic Damages in Personal Injury" Continuing Legal Education Seminar, Chicago, Illinois, September, 1996.

"Applying the Daubert Standard to Economic Testimony" presented at the National Association Railroad Trial Counsel Meeting, Chicago, Illinois, September, 1996.

"But is It Economics?: Handling Economic "Junk" Science" presented at the National Association of Railroad Trial Counsel, Counsel Winter Meeting, Phoenix, Arizona, February, 1996.

"The Role of the Economist in Litigation" presentation sponsored by Lorman Education Services, Continuing Legal Education Seminar, Kansas City, Missouri, February, 1996.

"What's Wrong With This Report?: Handling Economic "Junk" Science" presentation to Missouri Organization of Defense Lawyers (MODL), Tenth Annual Meeting, St Louis, Missouri. May, 1995.

"Damages in FELA Litigation," Continuing Legal Education Seminar, Kansas City, Missouri, November, 1994.

"Damages For Loss of Benefits in Railroad FELA Cases," National Association of Railroad Trial Counsel Winter Meeting, Palm Beach Florida, February, 1994.

"Business Damages, an Analytical Framework," Continuing Legal Education Seminar, Kansas City, Missouri, December, 1993.

"Evaluating Economic Damages in Personal Injury," presentation to the Annual Meeting of the American Board of Vocational Experts, Cancun, Mexico, March, 1993.

"Damages Estimates in Railroad FELA Cases," Continuing Legal Education Seminar Sponsored by Shook, Hardy & Bacon and Morrison & Hecker, Kansas City, Missouri, October, 1992.

"Economic Proof of Liability and Damage in Business Tort Cases," with J. Ward and F. Finch, Continuing Legal Education Seminar sponsored by the University of Missouri-Kansas City Law School and Kansas City Metropolitan Bar, Kansas City, Missouri, 1989.

"Financing Cogeneration," seminar for the Mid America Chapter of the American Society of Heating, Refrigeration and Air Conditioning Engineers (ASHRAE), Overland Park, Kansas, 1986.

"FASB As Phlogiston: An Economists Reflections on SFAS 71," Iowa State Regulatory Conference, Ames Iowa, 1985.

"Choosing Consultants for Prudence Audits," Subcommittees on Finance and Economics of the National Association of Regulatory Commissioners (NARUC), Clearwater, Florida, 1985.

"Measuring Utility Investment Risk Using Option Pricing and Time State Preference Models," NARUC Subcommittee on Finance, Clearwater, Florida, 1984.

"Developing a Comparable Sample for Cost of Capital Using Cluster Analysis," NARUC Subcommittee on Finance, San Diego, California, 1984.

"Regulation and Disinflation," NARUC Subcommittee on Finance, San Diego, California, 1984.

"The Search for Optimal Capital Structure," National Society of Rate of Return Analysts, Washington, D.C., 1984.

"Phase-ins: The Neglected Dimension," Mid America Regulatory Conference, Chicago, IL,1984.

"Reconciling Value Estimates of Public Utility Property," Midwest Association of Utility Property Appraisers, Springfield, Illinois, 1983.

ASSOCIATIONS AND MEMBERSHIPS

Kansas City Council on Business Economics, President - 1991-1993
Chairman, NARUC Subcommittee on Finance, 1983-1984
Faculty, NARUC Advanced and Regulatory Studies Program, 1983-1984
American Economic Association
American Finance Association
Financial Management Association
National Association of Business Economists

SELECTED PUBLIC UTILITY AND ENERGY ECONOMICS PROJECTS

Memphis Light Gas & Water Division - Supply Options 2000. Because the transition to competition in the electric industry presented new challenges and opportunities, MLGW commissioned Spectrum Economics to forecast the structure of the industry in the future and formulate strategies for MLGW to economically provide power. As part of our efforts we used financial, production costing and market clearing price models to forecast the future rates of TVA, the market clearing price of power in the area around Memphis and the relative economics of various construction and market purchasing strategies for meeting the demand for electricity. We also evaluated the technological, fuel supply and regulatory considerations influencing MLGW's decision. Client contact: Dana Jeanes.

On behalf of the City of Topeka, Kansas, before the Kansas Corporation Commission Docket # 97-WSRE-676-MER, March, 1999. Presented testimony regarding why the proposed merger between KCP&L and WRI was in the public interest and why the requested acquisition adjustment should not be permitted. John C. Frieden, Frieden, Haynes, & Forbes (Topeka, KS).

Townsend Capital Summit Technology Center – The Summit Technology Center is a one million square foot industrial complex situated on 300 acres in Lee's Summit, Missouri. Dr. Pflaum served as the project coordinator for a team that solicited bids for energy supply including cogeneration and trigeneration. His team evaluated those bids and assisted the client in negotiating a more favorable rate from the electric utility on the basis of the avoided cost of self-generation. Dr. Pflaum also solicited bids for gas supply to the plant and assisted the owners in selecting a new gas supplier and in negotiating with the local gas utility for carriage from the city gate. Client contact: George Loelkes. This project is ongoing.

On behalf of the Association of Directory Publishers before the Public Utilities Commission of the State of California, San Francisco, CA, RE: The Matter of the Joint Application of Pacific Telesis Group ("Telesis") and SBC Communications, Inc. ("SBC") for SBC to Control Pacific Bell. Application No. 96-04-038, November, 1996. Presented testimony on how the SWB/Pactel merger would impact Yellow Pages. Peter Casciato, Law Offices of Peter Casciato (San Francisco, CA).

On behalf of the Association of Directory Publishers before the Federal Communications Commission, Washington, DC, RE: Application for Consent to the Transfer of Control of Licenses and Pending Authorizations from Pacific Telesis Group to SBC Communications, Inc., Report No. LB-96-32, October, 1996. Presented testimony on how the SWB/Pactel merger would impact Yellow Pages. Theodore Whitehouse, Wilke Farr & Gallagher (Washington, DC).

On behalf of the Association of Directory Publishers before the Federal Communications Commission, Washington, DC Re: Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information, CC Docket No. 96-115, June, 1996. Competitive issues relating to subscriber listing information. Theodore Whitehouse, Wilke Farr & Gallagher (Washington, DC).

On behalf of Williams Natural Gas Company before the Missouri Public Service Commission, GR-94-101 and GR94-228. January, 1996. Testimony on competitiveness of commodity and transportation markets. Gary Boyle, Williams Companies Legal Department.

On behalf of Williams Natural Gas Company Re: Kansas Pipeline Partnership before the Kansas Corporation Commission for Approval and to Make Effective Certain Gas Purchase Contracts between Kansas Pipeline Partnership and Western Resources, Inc. et al, Dockets No. 192,506-U, 192,391-U, and 192,507-U - October, 1995. Reasonableness of prices and terms of a proposed pipeline. John Frieden; Frieden, Haynes, Forbes, (Topeka, Kansas) and Gary Boyle; Williams Natural Gas Company, (Tulsa, Oklahoma).

Re: Application of Kansas Pipeline Partnership et al., Docket No. 190,362-U, October, 1994. Presented testimony regarding the regulatory and business climate of the natural gas industry from 1970 through 1994 and how changes in the industry affected the competitive environment faced by the joint applicants. John Frieden; Frieden, Haynes, Forbes, (Topeka, Kansas) and William J. Sears; Williams Natural Gas Company, (Tulsa, Oklahoma).

Agricultural Energy Consumers Association. Presented testimony in Pacific Gas and Electric 1991 ECAC proceeding and 1992 General Rate Case regarding marginal cost, value of service and revenue allocation to the agricultural class.

American Public Gas Association. With J. Rodney Lemon, prepared white paper entitled Local Gas Distribution Companies and Pipeline Market Power: Workable Competition or Unregulated Monopolization for presentation by the APGA to Congress, the FERC and other interested parties. Included in study are survey of municipal LDCs, quantifying the extent of cost shifting and development of alternative regulatory policies. May - September 1991.

Memphis Light Gas & Water Division. Gas Supply Options Study. Evaluated options for gas supply through 2000. Projected future gas costs, pipeline rates and demand by customer segment. Built an optimization model to estimate the optimal level of firm demand for future years given historical weather patterns. Evaluated economics of expanding LNG facility. Performed a strategic analysis of various gas supply and transport portfolios. February 1991 - July 1991.

Memphis Light Gas & Water Division. Electric Supply Options Study. Evaluated alternatives for securing electric supply through 2010. Included projecting future TVA rates by building a large-scale integrated financial and production cost model of the TVA, forecasting demand for TVA power and forecasting future capacity needs of Memphis. November 1989 - February 1990.

City of Long Beach. Evaluated four possible gas supply strategies including pipeline purchase and operation. January 1990 - April 1990.

South Coast Air Quality Management District. Assessed the need for and costs and benefits of additional pipeline capacity into Southern California. November 1988 - July 1989.

Metropolitan Water District of Southern California. Determined the financial consequences of conservation programs on water utilities and developed rate offsets to make up revenue shortfalls resulting from conservation. June, 1989.

U.S. Department of Energy. Participated in a regulatory options study for the Office of Policy and Planning, 1989.

Meade County v. Panhandle Eastern Pipeline Company. Testified before the Tax Review Board of the Kansas Department of Revenue on the valuation of gas storage facilities, Summer 1989.

Commonwealth Edison Company, Docket 90-0169, Illinois Commerce Commission, Topics: Deferred plant accounting, cost of coal, and off-systems sales.

Commonwealth Edison Company, Docket 87-0427, Illinois Commerce Commission, Jan. 1988. Topics: Price competitiveness; relative cost of coal, and suggestions for changes in system operations.

Board of Public Utilities, Kansas City, Kansas. Developed a structural framework for analyzing the benefits of selling this municipal utility to private investors.

Gulf States Utilities, Docket 6755, Public Utility Commission of Texas, August 1987. Topic: The prudence of the corporate planning process of Gulf States Utilities. Retained by the Commission to evaluate the testimonies of the various parties to this case.

Quapaw Water Company, Public Service Commission of Arkansas, March 1987. Topic: General Waterworks acquired Quapaw at a price below book value. Commission staff and interveners sought to have rate base adjusted to reflect an acquisition adjustment. Presented testimony on behalf of the Company rebutting staff and intervener positions.

U.S. Department of Energy, as a subcontractor to Charles River Associates. Topic: Study of Rate Shock. Developed a revenue requirement and pricing model to evaluate the impacts of relative project size, cost per kilowatt of capacity, demand growth and rate moderation strategies on rate shock.

United Telephone Company of Missouri, Public Service Commission of the State of Missouri, Topic: cost of equity capital (included preparation in anticipation of cost on issue of the impact of different regulatory treatments of working capital and impact of cost of capital calculation).

Public Service of Indiana, Public Service Commission of Indiana, August, 1985. Topics: financial condition of PSI, financial forecasts, financial and regulatory policies to restore financial health.

Utility Diversification in the State of Wisconsin, Public Service Commission of the State of Wisconsin, July 1985. Topics: cost of capital, pricing of transactions and asset transfers between affiliated interests, capital structure, regulatory policy.

Kansas City Power and Light Company, Kansas Corporation Commission, June, 1985. Topics: phase-in of Wolf Creek revenue requirement, regulatory policy, pricing in competitive markets.

Arizona Public Service Company, Arizona Corporation Commission, October, 1984. Topics: phase-in of Palo Verde revenue requirement, cost/benefit of CWIP in rate base, cost of capital affects of incentive plans, financial condition of APS and likely bond ratings, financial forecast.

Central Illinois Public Service Company, Illinois Commerce Commission, April, 1984. Topics: optimal capital structure, preferred stock defeasance.

Illinois Power Company, Illinois Commerce Commission, June, 1983. Topics: CWIP/AFUDC cost/benefit analysis.

Iowa-Illinois Gas and Electric Company, Illinois Commerce Commission, May, 1983. Topics: phase-in of Louisa Generating Station including tax and accounting implications, financial condition of IIG&E.

American Bell, Inc., Illinois Commerce Commission, January, 1983. Topics: valuation of detariffed assets, compensation for investment in employee training.

SELECTED LITIGATION PROJECTS

U.S. v. Zeitlin, No. C 87-20084, U.S. District Court, District of Kansas. Analysis of damages to purchaser from bid splitting. Attorney - James L. Eisenbrandt; Morris & Larson.

Great Western Directories v. Southwestern Bell, et al., No. CA2-88-218, U.S. District Court, Northern District of Texas, Amarillo Division. Analyzed the structure of the directory advertising market; the conduct of Southwestern Bell in pricing of White Pages listing information; and, the results of that conduct on competition in the market and damages to the plaintiff. Attorney - Robert E. Garner, Nancy J. Stone; Garner, Stone and Lovell. (Amarillo, TX)

Starcom, Inc. v. U.S. Telecom, Inc., et al., No. 87-2540-5, U.S. District Court, District of Kansas. Analysis of the economic and financial viability and value of a long-distance reseller. Attorney - R. Frederick Walters; Linde Thomson, et al.

Crown Building Supplies, Inc. v. Peachtree Doors, Inc., No. 88-2592-0, U.S. District Court, District of Kansas. Analyzed liability and damage claims in breach of contract case. Attorney - John L. Taylor; Vincent, Chorey, et al. (Atlanta, GA)

Federal Sign Company v. Duravision, Inc. et al, No. SA-90-CA-394, U.S. District Court, Western District of Texas. Valuation of a start-up company. Attorney - Sam L. Stein; Garner, Stone and Lovell (Amarillo, TX)

First National Bank of Utah v. Goldston, et al U.S. District Court, Northern District of Texas. Developed analysis of the benefits to a party to a check kiting and fraud conspiracy in RICO action. Attorney - John Harrington; Ray, Quinney & Nebeker (Salt Lake City, UT).

KMS, Inc. v. Conagra Pet Products, Inc. No. 90-1582-T, U.S. District Court, District of Kansas (Wichita, KS). Analysis of financial condition of plaintiff at time of contract and claim of damages due to contract recission. Attorney - John P. Passarelli; McGrath, North, et al (Omaha, NE).

Zayler v. Great Western Directories, Inc. No 90-90760-5, U.S. Bankruptcy Court E. District of Texas. Valuation of two telephone directories. Attorney - John Lovell; Garner, Stone & Lovell. (Amarillo, TX)

Beehive Pizza v. Dominos, Case No. 92-C-0613G, U.S. District Court, Utah. Economics of franchisee -franchiser relationship and analysis of franchiser actions in context of good faith and reasonableness. Attorney - Robert Moore; Giaque, Crockett & Bendinger (Salt Lake City, UT)

Nevada Power Company v. Monsanto Company, et al, Case No. CV-S-89-555, U.S. District Court, Nevada. Analysis of damages to electric utility due to early replacement of transformers. Attorney - Steven R. Kuney; Williams & Connolly, (Washington, D.C.).

Bluebonnet Savings Bank v. Federal Deposit Insurance Corp., Case No. CA3-91-1066-X, U.S. District Court, Northern District of Texas Dallas Division. Determination of impacts of government actions on value of institution and ability to finance acquisition. Attorney - Jeremy Butler; Lewis and Rocca. (Phoenix, AZ)

Richard B. Cray, et al. v. Deloitte, Haskins & Sells, Case No. 90-C-682-E. U.S. District Court, Northern District of Oklahoma. Securities fraud (10b - 5). Effect of financial presentation on the valuation of a savings and loan. Attorney - Daniel Bukovac; Watson, Ess, et al. (Kansas City, MO)

Computer Equipment Useful Life Analysis, Case No. 92-13440-EQ and No. 93-3108-PR, State Board of Tax Appeals. Testimony before property tax review boards in states of Kansas and Missouri on economic lives of various types of computing equipment. Attorney - Ben Neil; Neil and Terrill. (Overland Park, KS)

Security Pacific v. Cape Mobile Home Mart, Case No. CV191-866CC, Union, County, Missouri.

Analysis of lender liability claim regarding failure of multi-state mobile home sales company. Valuation of firm prior to liquidation. Attorney - Frank Gundlach; Armstrong, Teasdale et al. (St. Louis, MO)

Eckholt v. ABI, Case No. 93-2440-KHV, United States District Court for the District of Kansas. Analysis of the performance of a public seminar company and valuation of an ownership interest. Attorney - Mark Hinderks; Stinson, Mag, Fizzell. (Overland Park, KS)

National Liberty Corporation v. Walmart/Sedgwick James, Case No. 4:94-CV-1818-FRB, United States District Court for the Eastern District of Missouri Eastern Division. Analyze lost profits claims in breach of contract case. Attorney - John S. Sandberg, Sandberg, Phoenix & von Gontard. (St. Louis, MO)

Donnelley v. Sprint Publishing, No. 95 C 5825, U.S. District Court, Northern District of Illinois, Eastern Division. Conduct analysis of Greater Chicago yellow pages directory market. Estimated damages claimed by plaintiff from Sprint's alleged competition with a Sprint/Donnelley partnership and damages alleged in Sprint's counterclaim. Attorney - Jerome T. Wolf, Sonnenschein, Nath & Rosenthal. (Kansas City, MO)

FoxMeyer Drug Co. v. C.D. Smith Drug Co., No. CV 94 2932 Civil Docket A, Circuit Court of Jackson County, MO at Kansas City. Analyze lost profit claims in business interference case. Attorney - Jan P. Helder, Sonnenschein, Nath & Rosenthal. (Kansas City, MO)

Brooks Fiber Communications of Tucson, Inc. v. GST Tucson Lightwave, Inc., Case No. CIV 95-655 TUC-JMR, United States District Court for the District of Arizona. Analyzed the relevant market and conduct and quantified damages incurred by a competitive access provider of telecommunications services in an antitrust action. Attorney - Edward M. Mansfield, Belin, Lamson, McCormick, Zumbach & Flynn. (Des Moines, IA)

Schonfeld v. Hilliard, No. L-95-3052 (MBM), United States District Court, Southern District of New York. Analyzed the economic viability and implied value of a proposed cable news programming venture in a breach of contract case. Attorney - William G. Dittrick and Jill Robb Ackerman, Baird, Holm, McEachen et al. (Omaha, NE)

National Claims Management Corporation v. Mercedes-Benz of North America, Inc. Case No. 96-0090 GHK(AJWx), In the United States District Court, Central District of California. Analysis of barriers and gains from anticompetitive behavior in refusal to deal antitrust case. Attorney - Judith Anderson, Stroock, Stroock & Lavan. (Los Angeles, CA)

Bogan Aerotech, Ltd., et al v. Bell Helicopter Textron, Inc., Case No. 96-013461. In the District Court of Harris County, Texas. Evaluation and critique of plaintiff's expert's study of damages relating to an alleged breach of contract. Attorney - Ernie Figari, Figari & Davenport (Dallas, TX).

U.S. Surgical Corp. v. Orris, Inc., Case No. 96-2300-GTV. In the United States District Court, District of Kansas. Analysis of market structure, performance and harm to competition for defendant on antitrust counter claim to a patent infringement claim. Attorney - John Power, Husch & Eppenberger. (Kansas City, MO)

Interphase Corporation v. Rockwell International Corporation, Case No. 396-CV0290-P. United

States District Court, Northern District of Texas, Dallas Division. Valuation of the network systems division of Rockwell and analysis of damages claimed for breach of contract to sell the division. Attorney - Ernie Figari, Figari & Davenport. (Dallas, TX)

American Red Cross v. Community Blood Center of the Ozarks, Case No. 95-3466-CV-S-4, United States District Court, Western District of Missouri, Southern Division. Analyze lost profit claims in business interference case. Attorney - Stuart H. King, William H. McDonald & Associates (Springfield, MO)

Felton USA, Inc. v. Wallace, Saunders, Austin et al, Case No. CV97-20205, Division 11, District Court of Jackson County, Missouri, Sitting at Kansas City. Analysis of lost profit claims and critique of plaintiff's expert's study of damages relating to an alleged breach of contract. Attorney - J. Nick Badgerow, Spencer, Fane, Britt and Browne (Overland Park, KS)

Consolidated National Corporation, et al v. Winstead, Sechrest, Minnick, P.C., Civil Case #3-9CV1353-L, U.S. District Court, Northern District of Texas, Dallas Division. Analyze the value of a poison pill right affecting marketability in a legal malpractice case. Attorney – Steven K. DeWolf, Bellinger and DeWolf (Dallas, TX)

SCHEDULE 2

TO: Rick Tangeman

FROM: Brad Dixon, 575-8059
Gas Supply, GO-4th Floor

DATE: January 19, 1994

SUBJECT: KPOC Delivery Problems

CC: Larry Miller, Jim Akers

Gas Service

INTERNAL CORRESPONDENCE

At the monthly operating meeting with KPOC yesterday, we addressed the problems they experienced in delivering the peaking gas supply we had requested from them. They basically had two alternative plans for bringing gas onto the system.

The first plan was for delivery into the PEPL system. After initially getting confirmation from PEPL on the delivery, KPOC received notification from PEPL of a capacity constraint at the Haven interconnect and their gas was not able to flow because other gas was inline in front of them. KPOC believes this problem may have been avoided had they gotten the notification to add gas earlier, such as on Sunday rather than Monday.

The second alternative called for using the Trunkline system to backhaul the gas. Again, they thought that they had everything working and confirmed for delivery, and in fact, they think their gas flowed for a couple of hours. However, after 5:00 pm on Monday they received notice that this gas was not available, a result of a problem on the Trunkline system with starting a compressor station to move the gas.

On Tuesday, they were working on several additional alternatives to meet our requirements. They also stated that after the current situation was resolved, they would be reviewing their performance and identifying new alternatives to ensure their ability to deliver in the future. At that time, they will meet with us to review their plan.

TO: Memo to File

FROM: Rick Tangeman, 575-1910 C.R.T.
Gas Supply, GO - 4th Floor

DATE: January 19, 1994

SUBJECT: Kansas Pipeline Partnership

CC:

Gas Service

INTERNAL CORRESPONDENCE

On January 17th at approximately 9 am, Jim Akers called Joan Schnepp with KPOC to request that KPOC bring our purchase volume up to maximum rates (105,666 Dth/D) for the remainder of the day and for the 18th and 19th.

During the evening (about 9 pm), I received a call from John Teefey indicating that KPOC had advised us that they had "lost" approximately 17,000 Dth/D of their supply and would not be able to deliver the maximum amount.

At approximately 10 pm, I received a call from Keith Mitchell of KPOC. Keith had indicated that they had lost the 17,000 Dth/D and expected it to continue through the 18th and 19th with a total shortage for the three days of about 35,000 Dth. I ask Keith what the problem was. Keith said that they had arranged for about 35,000 Dth/D on PEPL but that about 17,000 Dth/D would not flow because of constraints at Haven. (This leads me to believe that their transport on PEPL was IT.) They then tried to line up supply on TrunkLine, but TL could not confirm that they were receiving gas. Keith did not know if they could get the gas flowing on the 18th or 19th.

TO: Rick Tangeman

FROM: Larry G. Willer, Topeka G.O.
Gas Supply, 575-8218

DATE: January 18, 1994

INTERNAL CORRESPONDENCE

SUBJECT: KPOC Firm Gas Purchase Contract

CC: J. Ingram

During the morning of January 18, KPCC informed Gas Service Marketing Department they were going to curtail all interruptible transportation customers transporting on KPOC. KPCC had contacted the customers and told the customers since WRI was not in curtailment they could continue to use gas even though KPCC would change the nomination to zero. Joan Schnepp of KPCC and Wilma Romey and I had a conference call to discuss KPCC's curtailment. Joan Schnepp agreed the curtailment would not increase total gas volumes on KPOC and this was simply a paper transaction. With temperatures moderating and additional gas on WNG, I told Joan it didn't make sense to curtail those customers. KPCC later called Wilma and told her they were going to curtail those customers on January 18.

It seems apparent KPCC was curtailing the transport customers in an attempt to use the transportation gas to meet the firm purchase contract volumes. The curtailed customers would continue to use the same amount of gas and KPCC would make up any imbalance before month end.

January 18, 1994 JAN 24 1994

Western Resources, Inc.
(formerly The Kansas Power
and Light Company)
818 Kansas Avenue
P. O. Box 889
Topeka, KS 66601

ATTENTION: Mr. Richard H. Tangeman
Vice President, Gas Supply
Facsimile: 1/575-6405

Dear Mr. Tangeman:

This correspondence is to confirm in writing certain of the recent telephone conferences between our personnel and personnel of Western Resources, Inc.

At approximately 8:45 A.M. on January 17, 1994, representatives of Western Resources, Inc. ("Western") notified personnel of Kansas Pipeline Operating Company ("KPOC") that Western wanted to commence an increase in deliveries on January 17, 1994, up to a rate of 118,467 MMBtu for January 17, 1994, with a potential, further increase of an additional 10,000 MMBtu on January 18 and 19, 1994. We were, further, notified that gas flows were anticipated to return on January 20, 1994, to the "pre-increase" levels.

Thereafter, at approximately 11:55 A.M., January 17, 1994, Western requested an additional increase in its earlier nomination by 5,882 MMBtu to begin on January 18, 1994 (for a total of 124,349 MMBtu).

At 12:00 o'clock noon, January 17, 1994, Western's total requested flow level was verified as being delivered by KPOC to Western for Wichita, Kansas, and at 1:00

EXHIBIT CCP-2

o'clock P.M., January 17, 1994, Western's total requested flow level was verified as available for delivery by KPOC to Western for the Kansas City Metropolitan Area.

On January 17, 1994, KPOC confirmed all necessary steps had been taken for delivery of the requested volumes of Western for the period January 17 through January 19, 1994, with the applicable supplier, as well as Trunkline Gas Company ("Trunkline") and Panhandle Eastern Pipe Line Company ("PEPL"). On January 17, 1994, KPOC additionally confirmed that its scheduled deliveries through Trunkline and PEPL had been initiated.

At approximately 6:00 P.M. on January 17, 1994, Trunkline advised KPOC that it was no longer able to honor the KPOC nomination because of compressor difficulties that had occurred on the Trunkline system. However, Trunkline advised that the compressor problems were being immediately addressed, and that full gas flows might be restored to KPOC in as little as two hours.

Shortly thereafter, KPOC was notified by PEPL that it may have to reduce KPOC gas flows from PEPL because of the failure of deliveries of Trunkline related to Trunkline's compressor difficulties.

Following further communication from PEPL, at approximately 7:00 o'clock P.M. on January 17, 1994, KPOC advised Western that because of compressor difficulties on Trunkline, and the actions of PEPL, that we would need to begin reducing deliveries into the Kansas City Metro Area. We further advised Western that Trunkline had indicated to us that their crews would be working on an emergency basis through the night in an effort to solve their compressor problems and that Trunkline believed full service would be restored quickly. In that regard, KPOC was in communication with Trunkline throughout the night of January 17/January 18, 1994, but with no resolution of the compressor difficulty.

Although we do not believe the various agreements require us to do so in the circumstances described above, we offered: (1) to make available to Western wellhead supplies that we had available that are attached to the pipeline system of Williams Natural Gas Company ("Williams"); and/or (2) to utilize supplies and gas transportation available to KPOC on Williams, and to deliver to Western Town Border

Stations in the Williams market zone area; and/or (3) to increase deliveries off the Kansas Natural Pipeline system into the Wichita area; so that all nominations by Western could be met, at no increase in price above that price called for in the various sales and/or transportation agreements. However, Western declined these offers of KPOC.

Finally, this correspondence is to advise you that Trunkline has notified KPOC that it will honor KPOC's nomination commencing at 8:00 o'clock A.M. January 19, 1994, and all nominations of Western can be and will be met by KPOC commencing at 8:00 o'clock A.M. on January 19, 1994.

Please advise if you have any questions regarding these matters.

Very truly yours,

Gary W. White
Senior Vice President
Kansas Pipeline Operating Company

107178I-838

KANSAS PIPELINE OPERATING COMPANY
[illegible] COMMERCE PLAZA [illegible] WEST [illegible]TH STREET
OVERLAND PARK KANSAS [illegible]
[illegible] FAX [illegible]

March 5, 1993

Mr. James Ingram, Vice President
Gas Service
818 Kansas Avenue
Topeka, Kansas 66612

Dear Mr. Ingram:

I extend my sincere apology for the delay in our response to your letter of January 28, 1993. Our organization is in a management transition which resulted in your letter to Mr. Blackim being routed improperly. Upon proper routing of your letter, we thought my verbal response to Rob Green was in the spirit of a reply.

I have had an opportunity to visit with Rob Green- first over the phone the day of the shutdown and then in our monthly Operation Meeting held on March 4, 1993. I feel confident that the concerns relating to the "failure" of January 22 have been addressed with your Operating group. Please allow me this opportunity to update you as to the progress being made in making modifications to existing delivery stations.

On January 25, 1993, a "fail open" actuator was installed at our Kansas City terminal delivery station (Fairfax KCK). This represented the removal of the last of the "fail close" actuators on our mainline delivery stations with Western Resources. At this time, all redundant SCADA equipment has been installed and is awaiting programming and testing. It is my understanding in talking with John Teefey that this project should be completed by the end of April.

Also, as a result of our meeting of March 4, '93, KPOC will be evaluating the installation of a station bypass with a low pressure monitor at all locations that are not so equipped. We are scheduled to discuss the results of this evaluation during our April Operations Meeting with your personnel.

I would like to emphasize that any station interrupt, no matter what the cause, is taken very seriously by all KPOC staff. The January 22 incident was caused by construction activities at the station. A conduit that contained a live transmitter cable was cut causing a short; thereby, it resulted in an RTU failure. We will continue to make every effort to avoid and eliminate failures of any type. We are committed to increasing the reliability of all of our measurement and related facilities. It is our intention to keep our most valued customers abreast of our activities in this regard.

Again, please accept my apology for this late response to your concerns. Should additional information be helpful, please feel free to contact me at any time.

Sincerely,

Ron Burnett

Ron Burnett
Manager, Pipeline Operations

RB/sb

CC: Rob Green
Hans Mertens
Gary White

James W. Ingram
Vice President
Production, Transmission and Storage

515 Kansas Avenue
Topeka, Kansas 66612
Phone (913) 575-1959

January 28, 1993

Mr. Kirk Blackim
Kansas Pipeline Operating Company
600 Commerce Plaza
7300 West 110th Street
Overland Park, Kansas 66210

Dear Kirk:

We, again, want to stress to your company the importance of continuity of service to our customers. A malfunction which results in an outage on your system requires a backup from other suppliers.

On January 22, 1993, at approximately 8:15 a.m., your KC Terminal station failed closed. This failure and others (e.g. January 22, 1992), would have resulted in a loss of gas service to our customers if another supplier's station had not been there ready to pick up the flow dropped by your station.

Rob Green has, in the past year, requested that your stations be equipped to eliminate fail-closed type actuators and controls. Please provide an update of your progress in this project or other actions taken to assure continuous gas supply.

Sincerely,

Jim

fa

cc: Hans Mertens
Rob Green

2-15-93 FAXED TO GARY WHITE - 451-4719

RIVERSIDE PRESSURE DROP
JANUARY 16, 1:00 P.M.

TIME	FLOW RATE (MCFD)	204B
13:00	57,339	156.6
14:00	31,454	164.5
15:00	20,978	148.5
16:00	19,743	148.6
17:00	19,858	148.8
18:00	19,928	151.3

-At 13:00. Tom Deloit began putting his regulator and control valve back in service.
-At 13:00, we began trimming deliveries back at Riverside to achieve 20,000 MCFD set point.
-At 13:13, we received a low flow alarm of 10,277 MCFD on the #2 run at Riverside. Total flow was still above 57,667.
-At 13:19, we received a low flow alarm for Riverside with a total flow now at 57,667 MCFD.
-At 13:25, we received a low flow alarm for the #1 run at 26,312 MCFD.
-At 13:26, we received a low FIC of 0 on the #2 run. Flow was at or near 26,312 MCFD.
-At 13:48, station flow went to 0 and downstream pressure dropped below 150 psig to 131.3 psig.
-At 13:54, flow resumed on the #2 run to 3.5 in. diff. or approximately 8,040 MCFD.
-At 13:54:57, flow on the #2 run increased to 13,620.
-At 13:56, downstream pressure increased back to 140.3 psig.
-At 13:56, flow increased to our flow set point near 20,000 MCFD.
-At 14:08, the daily log reflects a downstream pressure of 164.5 psig.
-At this point, we had reached our flow set point and operation had stabilized.

OPERATING COMPANY

Internal Correspondence

TO: Ron Burnett

FROM: Mark Nordike

DATE: February 10, 1992

RE: Work being done on the Master RTU and the Kansas City Terminal RTU causing I-70 Sales Station to shut down.

On January 22, 1992 KPCC had planned to complete the RTU work at Kansas City Terminal. Kansas City Terminal had a 3350 RTU running the station and KPCC needed to switch to a 3330 RTU. Around 8:00 a.m. Kansas City Terminal was put on bypass, wires were switched from the 3350 to the 3330 and the local program for Kansas City Terminal was downloaded at 9:00 a.m..

At approximately 12:30 p.m. the master RTU in the main office was also downloaded. This master RTU has seven slave RTU's communicating to it. The software for this master is set up so when it is downloaded it will receive data from the slave RTU's, but it will not send data to the slave RTU's. The master will start sending data only after the signal name [GO] is at a logic (1) or on.

The signal name [GO] was left at a logic (0) or off at this time. Around 1:00 p.m., the System Controller began entering the set points that were lost during the download of the master RTU and had finished around 5:30 p.m.. Included in the lost data were the set points for the I-70 Sales Station. All set points for I-70 Sales Station were entered correctly, including the setting for the main shut down valve.(OPEN)

At 5:51 p.m. the signal name [GO] was turned to a logic (1) or on, and all data from the master was sent to the slave RTU's in the field. At approximately 5:53 p.m. KPCC received a low flow alarm of 0 MCFD from I-70 Sales Station. The System Controller noticed that the main shut down valve position was showing closed at I-70 Sales Station, but the set point for the

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main shut down valve was set to open. He then tried to re-enter the set point of open again at 6:08 p.m.. This was unsuccessful, so the Controller dispatched a Field Technician to I-70 to open the main shut down valve.

While the Field Technician was in route, I-70 Sales Station hit a low pressure of 44.9 at 6:33 p.m. for four minutes. The main shut down valve was opened at approximately 6:30 p.m. and I-70 Sales Station started registering flow at 6:37 p.m.. I-70 Sales Station was back in full operation at a pressure of 50 psi at 6:43 p.m.. There was a total of 44 minutes of 0 MCFD and a total of 50 minutes until full operation.

We then started looking for any possible problems, and found it in the software. The digital output to open the main shut down valve was switched with the digital output to close the main shut down valve. At 8:00 a.m. January 23, 1992 I re-programmed I-70 Sales Station and downloaded the correct program that afternoon.

As a result of this incident, KPOC has made it a practice of checking all analog inputs, analog outputs, digital inputs, and digital outputs from the master RTU to the slave RTU before a station is put in service.

MN .

PRESSURE 202B

TIME	202B
17:56	48.2
18:00	46.3
18:04	45.2
18:08	44.9
18:14	45
18:16	45
18:20	45
18:24	45
18:28	45
18:32	44.9
18:36	44.9
18:40	46.1
18:44	47.6
18:48	49.4
18:52	50.5
18:56	51
19:00	51.5
19:04	51.8
19:08	51.9

ALARMS RELATED
TO I-70

17:52	Low PID2021 0.0
17:52	High X2021.Flow 3652.3
17:53	Low SXB. Flow 0 (Approximate time SDV closed)
17:53	Low SX2022.Flow 0
17:54	Low PT.2028 47.6
18:38	Norm SXB.Flow 18951
18:42	Norm PT.202.B 48.3
18:43	Operation back to normal. Station back to 50 PSIG.

1-17-94

KPOC

Ron [illegible]
Ron [illegible]

2-3 hrs

BACKHAUL FROM TRUNKLINE -

TRUNKLINE STORAGE [illegible] THE GAS

[illegible] HAS TAKEN TO [illegible] FROM [illegible] THE TRUNKL.

(40 mm/DA [illegible]/DA + THE [illegible] THAT [illegible]

THIS IS ALSO THE SOURCE OF THE GAS THE [illegible]

2 DAYS.

HAVE TO REDUCE

WRE REQUESTED	CAN DELIVER
15,568 Mich	15,568
mm/DA (46,332 [illegible] KC MO	
108[illegible]	98-100
(62,367 KC KS	

1-18-94 KPOC

BACK-UP SUP.
COMPR. PROBL'S?

118.467 MCF/DA RATE-YESTERDAY
PEPL CUT ~~THE~~ THEIR 50 MM/DA TO ZERO
THEY HAD TO CUT EACH 17 MM/DA.
DIFF: LINE PACK, + SOME OTHER LOADS CUTTING EACH
2 PROBL'S HAVEN:

LOSS OF 50MM DAY FLOW

9:00 AM WRI REQUESTED MAX DAILY QUANTITY
PEPL WAS MAXED @ HAVEN SO WOULDN'T GIVE KPOC MORE CAPACITY; SO KPOC ARRANGED 50MM BACKHAUL FROM TRUNKLINE.
THEN AFTER 5:00 PM TRUNKLINE HAD A COMPRESSOR FAILURE, + TOOK AWAY KPOC'S 50 MM/DA ~~EG~~ BACKHAUL FLOW.
IN ANSWER TO MY QUESTION, KPOC WILL RESOURCE THEIR GAS SO THAT THEY CAN OBTAIN THE PRIORITY TO GET GAS ON PEPL IN THE EVENT OF SAME PROBLEM. HAD COVERED ALL SCENARIOS IN THE PAST; WILL NOW COVER THIS POSSIBILITY.

AVE. FOR THE YR.
OTTAWA; ~~TEFFEY~~: KPOC → 75% OF THE GAS

94 GOALS: EGM ... [illegible]

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BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

WESTERN RESOURCES, INC.,	)	
	)	
PETITIONER,	)	
	)	
v	)	Docket No. 191,742-U
	)	
KANSAS PIPELINE PARTNERSHIP, L.P. AND KANSAS NATURAL PARTNERSHIP, L.P.,	)	
	)	
RESPONDENTS.	)	

COMPLAINT AND REQUEST FOR EMERGENCY SHOW CAUSE ORDER

COMES NOW Western Resources, Inc. (Western Resources), and files its Complaint against Kansas Pipeline Partnership, L.P. (Kansas Pipeline) and Kansas Natural Partnership, L.P. (Kansas Natural) (collectively referred to herein as Respondents). In support of its Complaint, Western Resources states:

1. Western Resources' exact name is Western Resources, Inc. Western Resources is a corporation organized and existing under the laws of the State of Kansas with its principal office located in Topeka, Kansas. It is a public utility engaged in the local distribution of natural gas in the States of Kansas and Oklahoma. Western Resources is a major customer of Respondents.

2. The names, titles, and mailing addresses of the persons who should be served with communications concerning this Application and all future matters in this proceeding are:

James A. Martin
Executive Director, Regulatory and Rates
Western Resources, Inc.
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-6549

Martin J. Bregman
General Attorney, Regulation
Western Resources, Inc.
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-1986

3. Kansas Pipeline Partnership, L.P. and Kansas Natural Partnership, L.P. are Kansas limited partnerships. Respondents are intrastate pipelines regulated by this Commission and are affiliated with KansOk Partnership, which contends that it is an Oklahoma intrastate pipeline,[1] and Riverside Pipeline, a FERC-regulated interstate pipeline. Respondents and their affiliates are commonly owned by Bishop Pipeline Company and other limited partners and operated by Kansas Pipeline Operating Company (KPOC). For convenience, the pipelines owned by Bishop Pipeline Company will be referred to collectively as the "Bishop Group."

4. Western Resources currently has several contracts with Respondents under which it purchases firm gas and transportation services. In addition to the contracts between Respondents and Western Resources, Respondents also have firm commitments to transport gas over their systems to other natural gas local distribution companies. Upon information and belief, Western Resources states that Respondents' total firm obligation to transport gas over their systems is approximately 142,000 to 146,000 MMBtu per day. Of Respondents' contractual obligations, approximately 121,000 to 125,000 MMBtu per day is required to be delivered by Kansas Pipeline to Ottawa, Kansas and the Kansas City metropolitan area. Upon information and belief, Western Resources states that the capacity of Kansas Pipeline is approximately 115,000 MMBtu per day.

5. As a result of the negotiations for the contracts and amendments signed between Western Resources and Respondents in 1991, Western Resources obtained language which

[1] Western Resources has raised questions as to KansOk's jurisdictional status in KansOk's pending rate proceeding at the FERC.

provides that service under the agreements "shall at all times have priority to natural gas transported by Transporter for any other party . . . ." This language was meant to assure that even if Kansas Pipeline were oversubscribed, Western Resources would have the highest priority on its system thereby decreasing the likelihood of curtailment. However, Western Resources now understands that Kansas Pipeline's agreements with other LDC's signed after the October, 1991, agreements contain language which is virtually identical to the above quoted language.

On January 17 and 18, 1994, Kansas Pipeline was unable to deliver to Kansas City Western Resources' nominated volumes under its contracts. According to KPOC, the reason for Kansas Pipeline's inability to deliver gas under the contracts was compressor problems which occurred on the Trunkline Gas Company (Trunkline) system. However, Western Resources was unable to learn of any incident on Trunkline which led to curtailments of firm service in January, 1994. Therefore, it appears to Western Resources that Bishop Group's transportation on Trunkline was interruptible. KPOC maintains that its failure to deliver gas was excused – presumably because it related to an interruption on an upstream pipeline. However, if Western Resources is correct that Bishop Group had only interruptible transportation on Trunkline, the failure of deliveries would not be excused since the use of interruptible transportation to serve Western Resources would not be consistent with Kansas Pipeline's contractual and regulatory obligations to serve as a public utility.

6. Western Resources has contracts with Bishop Group entities under which it is entitled to firm service of 89,668 MMBtu per day. Of that amount, 21,100 MMBtu per day is to be delivered to Wichita on Kansas Natural and the balance is to be delivered to Ottawa, Kansas and the Kansas portion of the Kansas City metropolitan area served by Western Resources. KPOC

has informed Western Resources that 30,000 MMBtu per day of the service to Kansas City is supported by a contract between Kansas Pipeline and One Source, a gas marketing affiliate of Panhandle Eastern Pipe Line Company (PEPL) and Trunkline. Upon information and belief, it appears to Western Resources that the One Source gas is to be delivered to Trunkline in Texas or Louisiana and hauled by Trunkline to its interconnection with PEPL at Tuscola, Illinois. From that point, the gas would be backhauled to the PEPL/Kansas Pipeline interconnect in eastern Kansas. It does not appear to Western Resources that the transportation of that gas from Texas or Louisiana to the PEPL/Trunkline interconnect is supported by firm transportation arrangements on Trunkline.

7. Western Resources purchases gas and transportation services from Kansas Pipeline for resale to its high priority customers. Since residential customers use approximately 1 MMBtu per day during periods of peak need, Kansas Pipeline's practices endanger service to 20,000 to 30,000 high priority customers when their need for natural gas is most crucial.

8. The overwhelming majority of the gas which is delivered by Kansas Pipeline is moved on the Bishop Group system through either of two routes.[2] One possibility is to move the gas from leased capacity on TransOk (not a Bishop Group affiliate) to KansOk Partnership. (The TransOk capacity is limited by contract to 95,000 MMBtu.) After its delivery to KansOk, the gas would then move on affiliated pipelines -- KansOk, Riverside, and Kansas Natural -- for delivery to Kansas Pipeline. Alternatively, gas can be delivered into Kansas Pipeline directly from PEPL at the Kansas interconnect point.

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[2] A small amount of wellhead gas -- approximately 5,000 MMBtu per day -- can move on the Kansas Natural west leg to support Kansas Pipeline deliveries. Western Resources does not know whether Kansas Pipeline uses that source of gas to support its operations.

9 In November and December, 1993, for firm gas transported on its system and delivered for resale in Kansas it appears that KPOC billed Western Resources for 83,668 MMBtu per day of firm capacity on KansOk, 83,668 MMBtu on Riverside (at the Kansas/Oklahoma border), 83,668 on Kansas Natural, and 62,568 MMBtu on Kansas Pipeline.[3] Commencing in January, 1994, KPOC reduced its firm billings to Western Resources to 48,668 MMBtu per day of firm capacity on KansOk. However, KPOC continued to bill Western Resources for 83,668 MMBtu on Riverside (at the Kansas/Oklahoma border), 83,668 on Kansas Natural, and 62,568 MMBtu on Kansas Pipeline. Additionally, KPOC billed Western Resources for substantial amounts of interruptible service on KansOk. When firm transportation to other customers is included, KPOC billed for at least 130,000 MMBtu of firm demand on Riverside and Kansas Natural from November, 1993 to present even though the firm service obligation is supported by firm capacity on TransOk and KansOk of only 95,000 MMBtu per day. A portion of the charges from KansOk, Kansas Natural, and Riverside and included in the billings to Western Resources were amounts passed through to Western Resources as upstream charges by Respondents.

Inability to meet obligations

10. Kansas Pipeline's obligations to provide service total approximately 121,000 to 125,000 MMBtu per day. At the same time, however, it appears to Western Resources, upon information and belief, that Kansas Pipeline's capacity is significantly less -- about 115,000 MMBtu per day.[4]

[3] KPOC has often not provided Western Resources with sufficient detail for it to determine the nature or basis for upstream charges included in its billings. Western Resources has attempted to exercise audit rights provided under its agreements with Respondents with little success to obtain this information. KPOC has prevented Western Resources from obtaining access to necessary information.

[4] Western Resources has attempted to obtain satisfactory information to address its concerns about Respondents' ability to serve its peak day needs. However, in response to a pair of December 19, 1994 letters, KPOC provided no specific information. On December 27, 1994, Western Resources faxed a follow up letter seeking specific information and documentation and has asked for a response by January 6, 1995. (That letter was erroneously dated December 29, 1994.) However, due to its substantial and reasonable concerns about the reliability of Respondents' service, Western Resources is filing this complaint and request for an emergency show

11. Based on the apparent overbooking of Kansas Pipeline's capacity and KPOC's refusal to demonstrate its ability to provide required service, the Commission should require Kansas Pipeline to show cause on an emergency basis why Western Resources should not be released from 30,000 MMBtu of its contract demand to allow Western Resources to obtain assured capacity upon which it can rely for service to customers in the upcoming winter.

Failure to meet obligations

12. Under their contracts with Western Resources and their certificate obligations, Respondents are required to provide firm, reliable gas supply and transportation services to Western Resources. Despite that requirement, it appears that Respondents have not arranged for firm upstream transportation sufficient to support their commitments.

13. As was indicated above, 30,000 MMBtu per day of Respondents' delivery obligation to Western Resources in the Kansas City metropolitan area is supported by purchases of gas from One Source. Upon information and belief, Western Resources states that the One Source gas is to be delivered to Trunkline in Texas or Louisiana and transported on interruptible contracts to the Trunkline/PEPL interconnect in Tuscola, Illinois. From Tuscola, PEPL would backhaul that gas to Kansas Pipeline. Western Resources is currently being charged $120,000 per month to reserve the One Source gas.

14. Since delivery of the 30,000 MMBtu per day of One Source gas appears to depend upon the use of interruptible transport on Trunkline, its delivery is not assured. Respondents' failure to obtain firm transportation for the One Source gas therefore does not make up for the shortfall in firm capacity on KansOk.

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cause order. The letters sent by Western Resources and the response by KPOC are attached.

15. The Commission should release Western Resources from 30,000 MMBtu of its contractual commitments to Respondents to allow Western Resources to obtain firm capacity on an alternate pipeline to assure service to Ottawa and the Kansas City area at the lowest reasonable cost for the upcoming winter.

Improper charges

16. Respondents have assessed firm capacity charges against Western Resources for capacity which is not supported by firm upstream capacity and have charged Western Resources for capacity on Kansas Natural and Riverside which is related to the movement of the One Source gas on Trunkline and PEPL.

17. Respondents have also included in their charges to Western Resources upstream charges for interruptible capacity on their affiliate pipeline KansOk and firm demand on KansOk, Riverside, and Kansas Natural to support deliveries by Kansas Pipeline to Western Resources. It appears, however, that the contracts under which such services are provided by Kansas Pipeline's affiliates to it have not been filed for approval with the Commission. Without filing the upstream charges with the Commission, Respondents were not authorized to pass those charges through to Western Resources.

18. The reasonableness of the arrangements between Kansas Pipeline and its affiliates for upstream transportation has not been shown. Moreover, because of the way that service is provided by Respondents and billed to Western Resources, it appears that Respondents also may be double recovering a portion of their fixed costs. In other words, Respondents appear to be charging Western Resources for both of the alternative methods for providing service when neither of those alternatives is capable of meeting Western Resources' peak day requirements.

Consequently, it may be appropriate for Respondents to modify their billing practices and make refunds to Western Resources.

WHEREFORE, Western Resources respectfully requests that the Commission issue its Order: 1) requiring Respondents on an emergency basis to show cause why Western Resources should not be released from its contractual obligations to the extent of 30,000 MMBtu per day so that Western Resources can obtain alternate arrangements for the remainder of the 1994-95 winter and future periods covered by its existing contracts, 2) requiring Respondents to demonstrate that they have the ability to meet their utility obligations for the amount of their contractual obligations from which Western Resources is not released, and 3) requiring Respondents to demonstrate the propriety of their bills and charges to Western Resources and requiring Respondents to refund any amounts which are not supported by contracts between Western Resources and Respondents and amounts which are double recoveries of Respondents' costs.

Respectfully submitted,

WESTERN RESOURCES, INC.

By ______________________

John K. Rosenberg
Executive Vice President and General
Counsel
Martin J. Bregman
General Attorney, Regulation
P.O. Box 889, 818 Kansas Avenue
Topeka, Kansas 66601
(913) 575-1986

ITS ATTORNEYS

Dated: December 28, 1994

EXHIBIT C [illegible]

AFFIDAVIT

STATE OF KANSAS)
) ss:
COUNTY OF SHAWNEE)

Richard H. Tangeman, being duly sworn upon his oath, deposes and says that he is Assistant Vice President, Gas Supply, of Western Resources, Inc. herein; that he has read and is familiar with the foregoing Application; and that the statements therein are true to the best of his knowledge, information, and belief.

Richard H. Tangeman

Richard H. Tangeman
Assistant Vice President, Gas Supply

SUBSCRIBED AND SWORN to before me this 23th day of December, 1994.

PAMELA MURRAY
NOTARY PUBLIC
STATE OF KANSAS
My Appt Exp ____________

Pamela Murray
Notary Public

My Appointment Expires:

March 2, 1996

KPL

[illegible]illiam G. Eliason
Vice President, Gas Service

Legal Department
[illegible] Kansas Avenue, [illegible] Floor
Topeka, Kansas [illegible]
Phone (913) 575-[illegible]
Fax (913) 575-[illegible]

December 15, 1994

Mr. Wendell Putman
Kansas Pipeline Operating Company
3325 Lenexa Drive - Suite 400
Lenexa, KS 66214

Re: Firm Service Reliability

Dear Wendell:

Under the contracts signed by Bishop Group entities and their customers, including Western Resources, Bishop pipelines have the obligation to provide firm deliveries in excess of 140,000 MMBtu per day to Kansas City and Wichita on peak day. We are aware Bishop holds 95,000 MMBtu per day of firm capacity on KansOk pipeline which is in turn supported by a like amount of capacity on TransOk under a capacity lease. However, we have not been able to determine whether the Bishop pipelines have any other firm upstream capacity to support their commitments in excess of 95,000 MMBtu per day. In fact, in January, 1994, Kansas Pipeline failed to deliver all of its required maximum daily quantities for approximately a day and a half. Circumstances at that time indicated to us that Kansas Pipeline was attempting to serve the balance of our requirements above 95,000 MMBtu per day with interruptible service on Panhandle Eastern Pipe Line Company and Trunkline Gas Company. These facts give us reason to be concerned about the reliability of firm transportation on your pipelines during the upcoming winter.

In testimony before the Kansas Corporation Commission in the recent rate case, Kansas Pipeline and Kansas Natural indicated through testimony of Mr. Langley that the pipelines have in place all the firm gas supply and firm transportation arrangements necessary to meet their maximum daily quantity obligations this winter. Given our past experience, that statement is helpful. However, in light of our overriding need for assured service, we require documentation and written assurances from you that the pipelines will be able to meet their peak day obligations under our contracts.

We view this as an issue of utmost importance and urgency. If the pipelines are unable to provide firm service when needed this winter, we will have to obtain service from another pipeline, if such service can be obtained, or curtail service to some of our customers during peak periods. In the latter event, Western Resources would suffer a loss, as would our customers, which would be directly attributable to the oversubscription of capacity by Bishop pipelines. We hereby request that Bishop deliver documentation to our Topeka general offices, by close of business Monday, December 19, 1994, demonstrating that Bishop has the ability to meet its contractual obligations under our current gas supply and transportation agreements. In the event Bishop is unable to provide satisfactory evidence that the pipelines have firm contracts supporting their service under our agreements, Western Resources will be forced to take necessary steps to obtain alternative service to ensure reliable service to our customers in the upcoming winter. If we are required to take such action, we will look to Bishop for any appropriate remedy.

Sincerely,

William G. Eliason
Vice President, Gas Service

kik

KPL

William G. Eliason
Vice President, Gas Service

DEC 1 6 1994
Legal Department

P.O. Box 889
818 Kansas Avenue, 4th Floor
Topeka, Kansas 66601
Phone (913) 575-1999
Fax (913) 575-6408

December 15, 1994

Mr. Wendell Putman
Kansas Pipeline Operating Company
8325 Lenexa Drive - Suite 400
Lenexa, KS 66214

Re: Overspeed Contract Volumes

Dear Wendell:

As you will recall, on December 29, 1992, Western Resources and numerous Bishop Group companies executed an agreement that the parties have referred to as the Overspeed settlement agreement. Under that eement Western Resources paid Bishop $1,693,000 in settlement of certain disputes and Bishop committed to provide discounted peak day transportation service up to 6,000 MMBtu per day upon 20 hours notice through October 31, 1997.

As a result of and in reliance on, the representations and warranties in the Overspeed agreement, Western Resources has reduced its contract demand level on Williams Natural Gas Company (WNG) by 6,000 MMBtu per day and is currently recovering the Overspeed payment from its customers through its purchased gas adjustment clause.

Based on your failure to provide peak supplies in the past, as detailed in my other letter of this date, we are concerned that the total of Bishop Group pipeline commitments for service in the Kansas City area exceed pipeline delivery capabilities (taking into account current pipeline capacity and installed compression horsepower) by approximately 6,000 MMBtu per day. If that is correct, Western Resources runs the risk of not receiving any of its entitlement under the Overspeed agreement. This raises great concern that Bishop will not be able to meet its contractual commitment under the Overspeed agreement.

We view this as an issue of utmost importance and urgency. If the pipelines are unable to provide firm service when needed this winter, we will have to obtain service from another pipeline, if such service can be obtained or curtail service to some of our customers during peak periods. In the latter event, Western Resources would suffer a loss, as would our customers, which would be directly attributable to the oversubscription of capacity by Bishop pipelines. We hereby request that Bishop deliver documentation to c Topeka general offices, by close of business Monday, December 19, 1994, demonstrating that Bishop has the ability to meet its contractual obligations under the Overspeed agreement. In the event Bishop is unable to provide satisfactory evidence that the pipelines have firm contracts supporting their service under the agreements. Western Resources will be forced to take necessary steps to obtain alternative service to assure reliable service to our customers in the upcoming winter. If we are required to take such action, we will look to Bishop for any appropriate remedy.

Sincerely,

William G. Eliason
Vice President, Gas Service

kk

[illegible]

December 19, 1994

Western Resources, Inc.
818 Kansas Avenue, 4th Floor
Topeka, Kansas 66601

Attn: Mr. William G. Eliason

Re: Your Letters Dated December 15, 1994

Dear Bill:

Your letters dated December 15, 1994 were received and have been reviewed. In view of the contractual arrangements that have existed for several years between our firms, and considering the factual context of several of your statements and concerns, I am quite surprised with the attitude that is expressed. It is somewhat puzzling that you select this particular point in time to raise the issue while seeming to ignore both recent information provided to Western and the very enviable track record that we have established in supply and transportation services to Western. In further assessing the situation, I have made particular note of several points that you may not have been provided by other employees of Western Resources, Inc. (Western).

1) The current maximum delivery volume obligation under our contracts with Western is 89,668 MMBtu/d. Western's transportation portion of this volume is 10,550 MMBtu/d into Wichita and 13,784 MMBtu/d into the Kansas portion of the Kansas City metropolitan area. Kansas Natural's sales obligation to Western is 10,500 MMBtu/d into Wichita and Kansas Pipeline's sales obligation to Western is 48,784 MMBtu/d into the Kansas portion of the Kansas City metropolitan area. In addition to these volumes, 6,000 MMBtu/d of additional conditional transportation is available to Western.

2) Your statements as to Kansas Pipeline's failure to deliver maximum daily quantities (MDQ) in January, or at any other time since inception of these contracts, are not consistent with the factual record, which was provided to

> Western at the time. Kansas Pipeline has never failed to meet its peak day obligation to Western. Within the contracts between our companies, we have the right to meet our winter season peak day obligation to Western by acquiring and providing alternative supply and/or capacity sufficient to meet any shortfall that might be experienced on our pipeline system, for whatever reason. In the January, 1994 situation, we immediately offered alternative volumes to replace the shortfall, even though we viewed the shortfall to qualify as an excused event. Western declined the alternative gas supplies that were offered, indicating that there was no need for us to provide the alternative volumes.

Thus, I do not see any basis for your characterization of the January, 1994 event in the context of "Kansas Pipeline failed to deliver". Such a misstatement should not be promoted within the Western organization; to do so can only spawn serious harm to the working relationship between our respective operating groups.

It is disconcerting to me that the issue of deliverability is of concern. Operating representatives and others of Kansas Pipeline and Western meet monthly to discuss any and all issues of concern. While Kansas Pipeline has never failed in its obligation to Western, deliverability expectations have been properly expressed by various Western employees at these sessions and we have been attentive and responsive to any concerns that were raised. During our regularly scheduled monthly meeting of October 26, 1994, the issue of meeting peak day obligations during the heating season was raised and we willingly shared information regarding the additional 30,000 MMBtu/d firm delivery obligation contracted with 1 Source, on Panhandle Eastern Pipe Line for on-call delivery to Kansas Pipeline.

During that same meeting, we were requested to cooperate in a "test peak" situation during November which we unconditionally agreed to do. While we remain, as always, ready to respond, Western never requested the "test peak". It is interesting to note that Western's receipts from Kansas Pipeline have exceeded the peak day obligation on several occasions in recent weeks.

By this letter Kansas Pipeline and Kansas Natural again assure Western that they stand ready, willing, and able to meet their contractual obligations under the current gas supply and transportation agreements. Hopefully, the information and assurances provided by this letter have resolved your concerns. Unless you advise otherwise, I will consider the matter concluded.

Respectfully,

Wendell C. Putman

Wendell C. Putman
Executive Vice President

KPL

P.O. Box [illegible]
[illegible] Kansas Avenue, [illegible] Floor
Topeka, Kansas [illegible]
Phone (913) 575-[illegible]
Fax (913) 575-[illegible]

[illegible] 27 1994
Legal Department

December 29, 1994

William G. Eliason
Vice President, Gas Service

Mr. Wendell Putman
Kansas Pipeline Operating Company
8325 Lenexa Drive, Suite 400
Lenexa, KS 66214

RE: Overspeed and Firm Contract Reliability Issues

Dear Wendell:

By your letter of December 19, 1994, you purported to reply to the concerns outlined in my December 15, 1994 letters on the above topics. Despite your stated concerns to the contrary, I can assure you that my letter was based on all available information and reflects quite accurately the history of the dealings between our two companies. In our view, your letter failed to respond adequately to our legitimate concerns about the reliability of service for the upcoming winter.

In your letter, you stated that Kansas Pipeline "has never failed to meet its peak day obligation to" Western Resources. That is not the case. The fact is that on January 17 and 18, 1994, Kansas Pipeline was unable to provide Western Resources its nominated volumes under its contracts with various Bishop Group entities. According to KPOC, the reason for its inability to deliver gas under the contracts was compressor problems which occurred on the Trunkline Gas Company system. Since we have been unable to learn of any incident on Trunkline which led to curtailments of firm service in January, 1994, we have concluded that your service on Trunkline was interruptible. The use of interruptible upstream transportationt to support firm deliveries is not consistent with good operating practice or industry standards. We are concerned about whether you are using interruptible pipeline service to support deliveries under your firm contracts with us.

You indicated in response to our reliability concerns that Kansas Pipeline now has obtained 30,000 MMBtu per day of firm gas from One Source "on Panhandle Eastern Pipe Line for on-call delivery to Kansas Pipeline." While this has been discussed with us, we have never seen the agreements with One Source and have insufficient information to allow us to conclude that delivery of One Source gas is any more assured than the supplies which were disrupted last January. We are also concerned about the lack of evidence that you have obtained firm transportation to assure that the One Source gas will be delivered to Kansas Pipeline when needed to serve firm loads.

Of particular concern to us, and left totally unaddressed by your letter, is the apparent oversubscription of Bishop Group facilities. As I indicated in my earlier letter, it appears to

Western Resources that Bishop's delivery obligations exceed its firm capacity. Not including your obligations under the Overspeed Agreement, Kansas Pipeline and Riverside Pipeline appear to have delivery obligations in excess of 115,000 MMBtu per day in the Kansas City area. The Overspeed volumes increase these obligations on peak day to an amount in excess of 120,000 MMBtu. It is not at all clear to us that your facilities can provide delivery of all the volumes the Bishop Group is contractually obligated to deliver.

As you know, reliability has always been a very important consideration in our dealings with Bishop. Therefore, the contracts stated that service under the agreements "shall at all times have priority to natural gas transported by Transporter for any other party . . . ." This language would assure that even if you were oversubscribed, Western Resources would have the highest priority on your system thereby decreasing the likelihood of curtailment. However, we now understand that Bishop agreements with other LDCs signed after our October, 1991, agreements contain language which is virtually identical to the quoted language. Consequently, we are uncertain about the priority of our service on your systems.

In order for us to adequately evaluate the reliability of our service from Bishop Group pipelines for the upcoming winter, we will need the following information:

1. Pipeline capacity for each pipeline from the Kansas/Oklahoma border to "Master Gas" and from "Master Gas" to Kansas City. Provide supporting documentation and engineering studies.
2. Copies of all off-system gas purchase contracts which support deliveries of gas to "Master Gas" for resale in the Kansas City area.
3. Copies of all currently effective firm transportation agreements for upstream transportation and storage service (including capacity lease agreements and seasonal exchange arrangements) which support deliveries of gas (both sales and transportation) to the Kansas City area.
4. Copies of all contracts which obligate Bishop Group pipelines to provide firm transportation to the Kansas City area. These contracts may be redacted to eliminate customer identifications and other proprietary information not relevant to your delivery capability.

As stated in my earlier letters, we view these items as issues of utmost importance and urgency. We hereby request that Bishop deliver documentation to our Topeka general offices, by close of business Friday, January 6, 1995, demonstrating that Bishop has the ability to meet its contractual obligations under our agreements. Under the Niche agreements between Western Resources and Bishop, Bishop has the obligation to deliver 83,668 MMBtu per day to Western Resources. During periods of peak demand, Bishop's delivery obligation is increased by 6,000 MMBtu by the terms of the Overspeed Agreement.

If Bishop is unable to meet its obligation under these contracts, please advise us immediately. The consequences of a failure by Bishop to deliver contracted quantities as a result of a misrepresentation of its capabilities would be extremely severe and presents a risk which is unacceptable to Western Resources.

Sincerely,

William G. Eliason

Vice President, Gas Service

TO: Bill Brown, Bill Eliason

FROM: Rick Tangeman, 913-575-1910
Gas Supply, 4th Floor-GO

Gas Service

INTERNAL CORRESPONDENCE

DATE: December 13, 1994

SUBJECT: KPOC Capacity Concerns

CC:

At the meeting this afternoon, concern was expressed about the security of the 6,000 mmbtu/d overspeed capacity being available during extreme load conditions. I also have a concern about the availability of the total purchase and transport volume being available during extreme load conditions. The following is a breakdown of the capacity on the KPOC pipelines as indicated by information filed in rate cases at the KCC and FERC.

Pipeline	Capacity (mmbtu/d)	WR Amount (mmbtu/d)	MGE Amount (mmbtu/d)
KANSOK	95,000	48,668	46,332
KPP-Zone 1 (was KNP)	130,000	83,668	46,332
KPP-Zone 2	108,900	62,568	46,332
RIVERSIDE	130,000	83,668	46,332

The above capacity figures do not contain the 6,000 mmbtu/d of overspeed capacity, nor does it contain capacity for others such as United Cities. The difference between the KANSOK capacity and the KPP-Zone 1 capacity is the original KPP contract purchase of 35,000 mmbtu/d. This purchase was originally served with firm capacity off of PEPL. During the failure to meet requested volumes last winter, I got the impression that it was being served with IT capacity on PEPL and Trunkline, i.e., forward haul on Trunkline to Tuscola and backhaul on PEPL from Tuscola to KPOC's Master Gas interconnect. There may have been some IT forward haul on PEPL from Haven to Master Gas also. I don't believe there is enough gas available on the Zone 1 pipe to serve the 35,000 mmbtu/d demand and I question if the lines have enough capacity even if gas was available. Therefore, some combination of PEPL IT capacity is probably planned for this winter also.

If, as a part of a settlement, we could obtain the west leg of the Zone 1 pipeline and eliminate the sales and transport to Wichita by KPOC, the 21,100 mmbtu/d of capacity would be eliminated from the Zone 1 capacity and the KANSOK capacity. That would allow an equal amount of the original 35,000 mmbtu/d to be carried as firm on KANSOK, with only 13,900 mmbtu/d to be carried on IT. The Main System has the capability of delivering the 21,100 mmbtu/d to Wichita and the 13,900 mmbtu/d of the remaining KC area purchase. The 8" line from Solvey to Wichita should be able to carry about 25,000 - 30,000 mmbtu/d. The two 6" lines from McPherson should have a capacity of about 10,000 - 15,000 mmbtu/d each. If the delivery of this 35,000 mmbtu/d was offset by the elimination of the System Transfer volumes, the overall LDC load on the Main System would remain about the same. With the higher operating pressures expected with the Market Center, deliveries could possibly be made without additional compression. The west lines should tie into the Zone 1 remaining pipeline somewhere near Thrall, so that the 13,900 mmbtu/d of gas delivered from the Main System could be redelivered to the KC area.

With this arrangement KPOC would retain a full demand on KANSOK and only loose the 21,100 mmbtu/d haul on Zone 1. Assuming the KCC would approve any settlement and allow WR to recover additional costs in rates, this would also be a way for WR to retain a portion of the System Transfer revenues I expect to loose in the near future (est. 2.9 bcf annually vs 6.9 bcf currently). The KC area customers would also have a much more reliable source of supply, instead of the IT which I believe is currently used by KPOC.

KANSAS PIPELINE OPERATING COMPANY

LENEXA KANSAS

January 6, 1995

Sent Via Facsimile
(913) 575-6405

Mr. William G. Eliason
Vice President, Gas Service
Western Resources, Inc.
P. O. Box 889
Topeka, Kansas 66601

Re: Response to Your Letter of December 29, 1994

Dear Bill:

In the absence of Wendell Putman (to whom your letter of December 29, 1994 was addressed), I am responding initially to your last correspondence. While my letter is not intended to fully set forth our position, the Company is evaluating to whom responses should be forwarded. This is necessary since you chose to file a complaint with the Kansas Corporation Commission prior to January 6, 1995, the date upon which you requested a response. In any event, certain information you have requested is confidential and proprietary in nature. To my knowledge, no contractual provision requires a sharing of that information. If you are willing to execute a confidentiality agreement relating to any further information provided, it will assist the Company's evaluation of to whom to respond. Please advise if such an agreement is acceptable to you.

Finally, while appropriate responses will again be provided to you and/or the KCC, it is our position that the basis of your recent letters and complaint are unfounded. We again want to assure you of our physical and contractual abilities to meet all of our obligations. The volumes of gas delivered in recent days is repeated proof of our ability to perform.

Mr. William G. Eliason
January 6, 1995
Page Two

I look forward to working with you in the future.

Sincerely,

David J. Davis

David J. Davis, P.E.
Vice President, Operations

DJD/sw

Gas Service

Richard H. Tangeman
Assistant Vice President
Gas Supply

January 10, 1995

P.O. Box 889
818 Kansas Avenue
Topeka, Kansas 66612
Phone (913) [illegible]
Fax (913) 575-[illegible]

Sent Via Facsimile and Regular Mail
(913) 599-2573

Mr. David J. Davis
Vice President, Operations
Kansas Pipeline Operating Company
8325 Lenexa Drive, Suite 400
Lenexa, Kansas 66214

RE: Overspeed and Firm Contract Reliability Issues

Dear Mr. Davis:

This responds to your letter of January 6, 1995 on the above matter. Bill Eliason is out of the office this week. I am writing in order to expedite our response to you. We continue to require information that would provide us the assurance that the Bishop pipelines have both transmission capacity and gas supply that will allow them to meet their contractual and utility obligations to Western Resources on peak day. Such information is essential to us so that we can take steps if needed to fulfill our obligations to our customers.

We filed our complaint at the KCC due to KPOC's failure to provide a sufficient response in its letter of December 19, 1994. Your January 6, 1995 letter simply demonstrates that we were correct to expect that no information would be forthcoming in a timely manner without resort to the KCC complaint procedures. We are willing, however, to work with you to resolve this matter without litigation.

In an effort to resolve reliability issues, Western Resources is willing to sign a confidentiality agreement related to any information which KPOC provides as you have suggested. To that end, I have included a signed confidentiality agreement with this letter. If you will provide the information requested in my earlier letter, we will, upon receipt of all responsive materials, file a pleading with the KCC asking it to suspend for 10 days its investigation of our complaint concerning your ability to meet your firm service obligations to Western Resources. If the materials satisfy us and the Staff that Bishop can meet its obligations to Western Resources, we will immediately file a dismissal of that portion of its complaint that relates to the reliability of Bishop's service to Western Resources.

The material that we need to meet our reliability concerns is as follows:

1. Pipeline capacity for each pipeline from the Kansas/Oklahoma border to "Master Gas" and from "Master Gas" to Kansas City. Provide supporting documentation and engineering studies.

2. Copies of all off-system gas purchase contracts which support deliveries of gas to "Master Gas" for resale in the Kansas City area.

3. Copies of all currently effective firm transportation agreements for upstream transportation and storage service (including capacity lease agreements and seasonal exchange arrangements) which support deliveries of gas (both sales and transportation) to the Kansas City area.

4. Copies of all contracts that obligate Bishop Group pipelines to provide firm transportation to the Kansas City area. KPOC may redact these contracts to eliminate customer identifications and other proprietary information not relevant to your delivery capability.

If KPOC does not provide this information informally, we can obtain it through discovery in the complaint case.

Very truly yours,

Richard H. Tangeman

Richard H. Tangeman
Assistant Vice Predient, Gas Supply

bcc: William Brown
Bill Eliason
Marty Bregman
John Rosenberg
Jim Martin

TO: Bill Johnson

FROM: Jack Roberts

DATE: February 22, 1991

SUBJECT: Kansas Pipeline etal. Proposals

CC:

RECEIVED

D... P. ...

KPL GAS SERVICE

INTERNAL CORRESPONDENCE

First, I find Pulman's February 14, 1991, letter very confusing in that the contract outline does not match most of the contract drafts that he presented.

For example:

outline			contract	comment
#3 KNP	8 MM/D		KPP 8.4 MM/D	KNP vs. KPP?
#4 KPP	2 MM/D		not attached	
#5 MKP	20 MM/D		MKP 84.2 MM/D	20 v.s. 84.2?
		or	KPP 21.1 MM/D	MKP v.s. KPP?
		or	KNP 21.1 MM/D	MKP v.s. KNP?
#6 KPP	5 MM/D		not attached	
#7 KNP	5 MM/D		not attached	
#8 RPCLP	84.2 MM/D		Tpart 84.2 MM/P	attached

Second, I see no need to rush these negotiations and execute contracts by the ridiculous date of February 20, 1991! In fact, as I will comment below, there are many good reasons to go slow and in some cases, not go at all.

Third, we need to know why this consortium chooses to contract as KPP in one case and as KNP in another and as MKP in yet another! How does that relate to supply integrity and sourcing?

Fourth, two contracts provide for purchase volumes to go to Wichita--29.5 MM/D as early as 11/1/91 and 21.1 MM/D to begin 1/1/93 (2.555 Bcf and 1.825 Bcf annually). Wichita currently absorbs KPL's main system gas that is excess to the main system. I believe KPC's proposal would push out KPL's gas and not necessarily WNG's gas as would be the apparent intent. This is critical and needs to be thoroughly explored and plenty of "cushion" needs to exist to protect KPL's own Wichita market. Also, WNG is shipping KPL's gas for 18¢. KPC should be required to charge no more than 18¢. To do otherwise would be uneconomical. I had explored this with them several times and 24¢ was as low as they would go!

Fifth, why sign contracts now that don't start until January, 1993! This preempts KPL's ability to formulate and negotiate a new flexible arrangement with WNG for our future business relationship. KPC is trying to tie up KPL and apparently KPC must believe they have first right to KPL's market.

Sixth, our conversion rights for November 1, 1991, is 6%. If that is all absorbed as conversion (transport over WNG), that represents 21.4 MM/D and our Mesa contract already commits 15 MM/D of that 21.4 MM/D which leaves 6.4 MM/D, which if used as a reduction instead of conversion is worth 27 MM/D that could be assigned to someone like KPC. The proposal from KPC of 29.5 MM/D for Wichita, plus 4.2 MM/D for Ottawa adds to a total of 33.7 MM/D with total annual volume of 2.920 BCF. This exceeds the 27 MM/D and 2.340 BCF levels that would be allowed.

This, of course, also leaves no room to bring our new Oxy and Amoco contracts "into the fold" as a permanent conversion. It leaves them out in the "cold" and relegates them to continue as an interruptible service. I would not think that leaving the Amoco and Oxy contract arrangements as interruptible is prudent or in the spirit of those contract se'.ements.

The detailed calculations are as follows:

$$.06 \times \frac{130}{365} = 21.4 \text{ MM/D}$$

$$\underline{-15.0} \text{ Mesa}$$

$$\frac{6.4 \text{ MM/D } (365)}{130} = 1.8\% \text{ left}$$

1.8% of 1500 = 27 MM/D peak

$$\frac{130{,}000}{365} = 356.2/1500 = 23.75\% \text{ L.F.}$$

27 x 365 x .2375 = annual allowable = 2.340 BCF

Seventh, why are some of KPC's proposals terminating in 2003 and some in 2004? ... (not a major point)

Eight, the 35 MM/D Kansas City, Kansas contract is to be revised and extended. Additionally, KPC proposes another 21.1 MM/D for Kansas City, Kansas. There are times now when it is difficult to absorb the existing contract in Kansas City, Kansas, and to increase this volume will make it even more difficult. Of course, KPC's objective is to get WNG completely out of Kansas City. They don't care that some room for another supplier should exist for KPL for flex and reliability purposes. The operating people will find it harder and harder to serve Kansas City, Kansas with some WNG gas--the WNG volumes will be too small for good operation. We have reached the reverse argument that sponsored KPC in the first place -- diversity of supply. KPC's proposal pushes WNG out at certain key and critical delivery points that serve a large distribution network. Several delivery points are needed to serve a network as large as Kansas City and KPC is trying to force their gas into this network at only two points when the system needs gas flowing at 6 to 7 points simultaneously. If KPC had supply at all of WNG and PEPL TBs, then it might work -- but they don't.

Ninth, we just finished executing a contract with Panhandle that converted one-half of the Kansas load to firm transport backed by a good Phillips supply contract. Osawatomie and Paola are part of that load. To give that load to KPC now would be to thwart the current supply arrangements which will create contract difficulties.

Tenth, the following comments deal specifically with the proposed contract language.

Amendment to August 8, 1988 KPC L.P. contract which provides 35 MM/D to Kansas City, Kansas.

- Old 3.1 provides term to 1/1/93 and one year rollovers.
  Amended 3.1 provides October 31, 2005 term and five year rollovers.

Why is it necessary to have a term this long (12 years)? All of our contracts are for five years, even our WNG relationship. This gives KPL flexibility, and it is clear KPC wants to control and limit KPL's flexibility. Only the Amoco and Oxy contracts have long terms and we got a big discount for that! This 12-year term and 5-year rollover does not seem prudent to me.

- Old 4.1 - Seller's M&R and Exhibit A is provided.
  New 4.1 - Exhibit A is removed - now Putman does not have to show KPL his supply or transport contracts. I think KPL needs to have the right to see the integrity of the supply arrangements it is depending upon! WNG generally shares this kind of data with us but Putman has always been secretive. This does not seem prudent to blindly depend upon Putman's group.

- Old 5.2 - Price = cost + fixed margin of 40¢ or KPC's COS rate determined from true costs by KCC - but such rates cannot exceed WNG's PR-B (2) rate - 15¢.
  New 5.2 - They have removed the WNG cap! They have added the obligation for KPL to pay gathering and transport costs with no limit so he could arrange the most expensive gas that's out there and KPL must pay. This is ludicrous. This would be imprudent on KPL to agree.

- Old 6.1 - WNG month statement on approximately the 5th, pay in 10 days; KPC sends measurement record to KPL each month.
  New 6.1 - minor changes - okay.

- Old/New 6.3 - invoice addresses - okay.

- Old 8.1 - 35 MM/D and 3.033 Bcf/yr.
  \+ .3 additional grandfather.
  3.3333 total
  KPL market controls.

New 8.1 - Okay to refer to 14.2 but KPL needs right to refer to what KPL's market will accept! This language needs to be put back in.

- Old 8.2 vs. New 8.2 - Buyer shall give as much prior notice to Seller "as the circumstances permit," before scheduling MDQ (35 MM/D). This is too vague and KPL has the right and the needs to get its 35 MM/D rate whenever it needs it!

  "The remedies recited in this numbered paragraph shall be the exclusive remedies available to Buyer under the circumstances cited above." KPL is limiting its liability in the event it fails to perform.

Again, KPC is reducing their responsibility by adding language on p. 5 ["failure . . . facilities].

This would allow Phenix to transport KPC's gas and have freeze ups - their line carries more liquid and water vapor than most other major pipelines, and this increases our risk of interruption in mid-winter when we need it. Also, if KPC fails on WNG's peak, WNG has the right to penalize KPL!!!

It would be imprudent for KPL to let KPC put KPL in this risk posture!

- Old 8.9 - no TCP.
  New 8.9 - puts KPC volumes ahead of WNG volumes and ahead of all of KPL's other contract volumes from Amoco, Oxy, Mobil, etc., etc.

This is an unreasonable hook that KPC has asked for! It would be imprudent for KPL to give KPC this exclusive first right.

- Old 14.1 - 3 year load profile.
  New 14.1 - revision is okay.

- New 8.10 - KPL will deliver KPC's gas to Industrials in Wyandotte County. Also at the election of KPC they can demand that KPL deliver to Industrial's or for KPC's supply at Riverside interconnect and deem it to meet this argument or KPC's Industrials agreements. So if Kansas City, Kansas can't absorb the gas - it can go to KPL's monthly load. (How does KPL's Riverside

  - this added 8.10 paragraph is okay.

The following comments relate to the proposed amendment of the January 15, 1990 contract.

- Revised 2.1 - okay.

- Revised 3.1 - term is to 2005 - I think this is imprudent to have this long of a commitment. The WNG contract and KPL's other regular agreements are not this long. Only where we get a discount (Oxy and Amoco) does KPL have a term over five years.

- Revised 5.2 - same price language as the amended KPC contract - I feel these price revisions are imprudent as I noted on the KPC contract.

- 5.3 - This is KPL's price protection lid that KPC is so eager to eliminate which would likely expose KPL to substantial costs well beyond other more economic alternatives.
- 6.1 - okay.
- 6.3 - okay.
- 8.1 - okay.
- 8.2 - prior notice "as circumstances permit" - vague - I have the same comments as the KPC contract. KPL is paying for the right to demand peak service anytime – just like our WNG & PEPL service. The problem is as usual, KPC wants a break on its performance requirement.
- 8.3 and 8.4 - same comments as KPC contract.
- -8.7 - probably okay.
- 8.11 - first priority as KPL's supplier is ridiculous - I have the same comment as on KPC contract.
- 8.12 - okay.
- 14.1 - okay.

General comments concerning contract format:

- For general reference, I have numbered the contracts 1 through 5.
- The five contracts are very similar and most of the language is identical.
- Contract #1 (KNP 33.7 MM/D)
  - typo on p. 4: 33,500 should be 33,700
  - typo on p. 5: 33,500 should be 33,700
  - page 6: "or civil disturbances; ... whichever is less, Seller shall be obligated to immediately ..." (should be revised to read like the other contracts for consistency).
  - page 6, four lines from bottom - the word "guaranteed" was omitted.
  - page 8, paragraph 8.13 should be revised to read like contract #2 for consistency.
- Contract #2 (KPP 8.400 MM/D)
  - make paragraph 8.13 in Contract #1 read like this paragraph 8.13 in Contract #2.
- Contract #3 (MKP @ 84,200 MM/D)
  - add words "for Buyer" on page 2, paragraph 4.1, line 5, after LP.
  - page 5, line 8, typo 84000 should be 84,200.

- Contract #4 (KPP @ 21,100 MMVD)
  - page 2, two lines from bottom - line should read "amount up to the maximum sales margin rate authorized for Kansas Pipeline ..."
  - page 5, line 4 typo, 21,10000 should be 21,100.
  - page 8, last line should read, "and such deliveries shall be deemed to have been made in the State of Kansas, and vice"...

- Contract #5 (KNP @ 21,100 MMVD)
  - no typo or format comments.

Contract shortcomings or unreasonable positions:

Contract (#1 - #5)

- Term - 2003 or 2004 w/5 year rollovers
  - This is too long a term and hurts KPL's flexibility.
  - 5-year rollovers is also an unreasonable hook which thwarts KPL's flexibility and options. It is obvious KPC is attempting to "tie up" KPL and control KPL's economic options.

- Delivery Points - the existing Wichita load will have difficulty in supporting this contract while at the same time allowing room for KPL's existing KGS contract and the WNG discount transport contract which moves 12-16 BCF/yr. of KPL's own gas into the Wichita market. This interference should not be permitted. It would be imprudent to setup another supplier that forces KPL's own gas out of Wichita. This could cause major take or pay problems with our Mesa contract and our Barber County production through KGS, not to mention the diseconomics of the KPC proposal.

- Price - this is the most abusive article (for all five contracts) in the entire proposal.
  - There is no lid.
  - Seller wants KPL to pay whatever the third party gathering and transport costs are as arranged for by Seller. This is a blank check - he could arrange for the most expensive service as well as direct that lucrative over priced business to his partners. In practically all of the supply deals I put together for KPL, the supplier pays for gathering which can range anywhere from 10¢ to 35¢ which is no small add on! Also, it has been KPL's policy that 3rd & 4th party or second and third tier transporters are excluded from force majeure exemptions in this contract; otherwise, KPC could set up a chain of transporters and that not only increases cost to KPL but the likelihood of performance failure for which KPC would claim exemption and KPL would go begging.

- Quantity - the ability to absorb these volumes must be studied in great detail - for example, Seller has generally proposed to deliver all the gas which in many cases represents a very large part of the market (if not all of it) at only one delivery point while five may exist to meet the diversity of the load. Cramming all the gas into one point when it used to go to up to 5 points can create a distribution problem.

- also as to the Paola and Osawatomie proposals that are currently committed under the PEPL contract, it will not be until November, 1992 before we can amend the Panhandle contract and reduce tables from Panhandle.

- KPL has a Phillips contract that replaces 1/2 of PEPL now. It would be imprudent to displace Phillips with KPC. Therefore, I suggest we consider giving one-half the Paola and Osawatomie load (the PEPL part) to KPC but not until November, 1992. This should be studied further, however.

- this last sentence in 8.1 should exist in all contracts or amendments.

- paragraph 8.2, last sentence, can be construed (and it would be) by KPC to deny KPL the <u>immediate</u> necessary action to get the peak volume when it may need it for rapid load demand changes. KPL is paying for a peak service that it should receive <u>on demand</u>. This is another attempt by KPC to make life easier for him at KPL's expense and to sell a subtlety described inferior service at a premium price.

- paragraph 8.3 allows the Phenix pipeline (which I consider less than reliable) to have freeze ups that interrupt KPL's ability to serve KPL and there is no compensation to KPL - just a phone call that says oops - "force majeure" on Phenix.

- The last sentence of 8.3 removes KPL's right to sue KPC for damages beyond replacement costs. This is objectionable give the vague performance commitment KPC has made in this contract.

- paragraph 8.4 again allows an escape based on the poor performance by others related to KPC's supply efforts. The last sentence of 8.4 is an escape just like the last sentence of 8.3.

- paragraph 8.5 is another attempt by Putman to put the burden of load variance upon KPL when in fact he is to "supply the market demand."

- this is the service we get from WNG and Panhandle!

- paragraph 8.9 should hold Seller to its responsibility to provide no less than 934 BTU - otherwise a penalty should exist.

- paragraph 8.11 - KPC wants KPL to agree that KPC's gas comes ahead of WNG or PEPL's gas. This is unreasonable and represents another typical Putman hook.

- paragraph 13.1 should not be construed to prohibit KPL access to its peak volume when it needs it to meet demand.

paragraph 8.12 for contract 3&4 – KC, MO & KC, KS market demands are proposed to be used to back each other to absorb KPC's gas. Again, KPC seeks preferential takes from KPL and special access to KPL's load patters at the expense of KPL's other suppliers in the area, namely WNG & PEPL. This aspect of KPC's contract should be so noted, taken into account and weighed on KPL's side of the ledger.

paragraph 8.13 for contract 3, 4, & 5 – provides for an unfair election by seller that is really a large hook into KPL and its market. Seller wants a large KPL commitment now with a seller right to withdraw its proposed supply by May 15, 1992, which leaves KPL about 1/2 year to make other arrangements!

This is also likely to be the time frame KPL will be negotiating with WNG for a new relationship to begin 1/1/93. KPC is attempting to interfere with, thwart and entangle KPL's process of dealing with the future relationship of its major supplier, WNG. This is very serious intervention.

The entire tone of 8.13 in the proposed contracts with a 2004 term, is very dictorial and manipulative. To give seller the right to double the 84.2 MM/D to Missouri, to double the 21.1 MM/D to KC, Kansas on top of the original 35 MM/D bringing the total to 77 MM/D and to double Wichita's 21.1 MM/D is absolutely a license to control KPL.

The construction time is well taken and a perfect excuse for the positioning that KPC has taken, but on the other hand, this is an attempted shotgun marriage that very effectively eliminates KPL's flexibility and diversity and supply planning. By the time KPL learns that KPC's proposals are ill planned and uneconomic, KPL will have precious little time to deal with alternatives. It would be imprudent to (1) sign these three contracts that allow this control and (2) to permit this broad of an option to seller in any case.

It would be easier to consider hooks like this if price was attractive, but price is not attractive at all in these proposals. Price is another big hook in these proposals, which provides for a KPL blank check as to transport and gathering costs and absolutely no incentive on KPC to buy economical packages of gas. They simply propose to pass on their costs. The only half way prudent cost component of their charge is their own transmission COS as determined by the KCC.