Table 8

NEW KPOC LATERAL

Schedule 1

RATE BASE, OPERATING INCOME, AND RATE OF RETURN

Line No.	Description	Reference	Pro Forma Adjusted Total
	RATE BASE		
1	Gas Plant in Service		$20,000,000
2	Less Accumulated Provision for		
3	Depreciation and Amortization		$0
4	Net Gas Plant in Service		$20,000,000
5	Total Rate Base		$20,000,000
	OPERATIONS		
6	Expenses		
	Transmission Expense		$1,169,467
	Administrative & General		$2,002,407
	Depreciation/Amortization		$666,667
	Taxes Other than Income		$326,800
7	Total		$4,165,341
	RATE OF RETURN		
8	Return on Rate Base	(12.37% ROE, See Schedule 2)	11.00%
9	Operating Income Requirement	(Line 5 * Line 8)	$2,200,900
	REVENUE REQUIREMENT TO EARN REQUESTED RATE OF RETURN		
10	Required Operating Income	(Line 7 + Line 9)	$6,366,241
11	Associated Income Taxes	(39.39% Effective tax rate)	$803,768
12	Revenue Required		$7,170,009

Table 8

NEW KPOC LATERAL

Schedule 2

CAPITAL STRUCTURE AND RATE OF RETURN

Line No.	Description	12/31/93 Capital	Capital Ratios	Costs	Weighted Costs
1	Debt	$10,000,000	50.00%	9.64%	4.82%
2	Partners' Equity	$10,000,000	50.00%	12.37%	6.18%
3	TOTAL	$20,000,000	100.00%		11.00%

Table 8

NEW KPOC LATERAL

Schedule 3

CALCULATION OF EFFECTIVE TAX RATE

Line No.	Description	Percent
1	Operating Income Before Income Taxes	100.00%
2	Kansas State Tax Rate	6.75%
3	Taxable Income - Federal	93.25%
4	Federal Income Tax Rate	35.00%
5	Federal Income Tax (Line 3 * Line 4)	32.64%
6	Effective Tax Rate (Line 2 + Line 5)	39.39%

Table 8

NEW KPOC LATERAL

Schedule 4

ALLOCATION FACTORS

Ratio of Net Plant Investment in Lateral to Net Plant Investment in Combined KNP/KPP

New Lateral	$20,000,000
Combined KNP/KPP	$34,883,820
Ratio	57.33%

Table 8

NEW KPOC LATERAL

Schedule 5

COST OF SERVICE AND RATE DESIGN

Line No.	Description	Pro Forma Adj. Total	Fixed	Variable
1	Transmission Expense	$1,169,467 1/	$1,019,467	$150,000 (est)
2	Administrative & General	$2,002,407 2/	$2,002,407	
3	Depreciation	$666,667	$666,667	
4	Taxes Other than Income	$326,800	$326,800	
5	Income Taxes	$803,768	$803,768	
6	Total Expense	$4,969,109	$4,819,109	$150,000
7	Return Allowance	$2,200,900	$2,200,900	
8	Cost of Service	$7,170,009	$7,020,009	$150,000

9	Daily Quantities for FIRM SERVICE Reservation Determinants	150,000
10	Annual Quantities for FIRM SERVICE Usage Determinants (30% L.F.)	16,425,000
11	Firm Reservation charge per month pre MMBtu of MDQ	$3.9000
12	FIRM Usage charge per MMBtu delivered	$0.0091

1/ Calculated based on the ratio of the net plant investment in the new lateral relative to the combined Kansas Intrastate Pipelines. ($20,000,000/$34,883,820 = 57.33% * Kansas Intrastate Transmission expense of $2,039,774 (KNP/KPP Schedule 9.1)).

2/ Plant ratio (see note 1 above) * Kansas Intrastate A&G expense of $3,492,580.

Table 9

Rates for Capacity Releases on Panhandle Eastern Pipe Line
Transacted Between November 1994 and February 1995

Date	Parcel No.	Rate	Basis	Max. Rate	% of Max.
11/30/94	1442	$0.0867	Blended	$0.2096	41.36%
11/30/94	1460	$5.3995	Res.	$11.2180	48.13%
11/30/94	1469	$0.3042	Res.	$5.3080	5.73%
11/18/94	1482	$5.6332	Res.	$11.2180	50.22%
11/18/94	1487	$2.4000	Res.	$11.2180	21.39%
11/22/94	1500	$1.5209	Res.	$5.3080	28.65%
12/5/94	1541	$5.2500	Res.	$11.2180	46.80%
12/5/94	1562	$5.2500	Res.	$11.2180	46.80%
12/15/94	1593	$4.0000	Res.	$11.2180	35.66%
1/2/95	1645	$0.1550	Blended	$0.4235	36.60%
2/1/95	1730	$2.7000	Res.	$11.1980	24.11%
2/28/95	1731	$2.7000	Res.	$11.1980	24.11%
2/28/95	1733	$2.5100	Res.	$11.2880	22.24%
2/1/95	1735	$0.3000	Res.	$5.2880	5.67%
2/2/95	1737	$3.0416	Res.	$11.1980	27.16%
2/2/95	1740	$6.0830	Res.	$11.1980	54.32%
1/31/95	1741	$0.0001	Res.	$5.2880	0.00%
2/2/95	1744	$5.2880	Res.	$5.2880	100.00%
2/4/95	1746	$4.5625	Res.	$11.1980	40.74%
				Average	34.72%

Table 10

Potential Savings From Discounted Firm Transportation Service on WNG

		Reservation	Commodity	Total
Williams Natural Gas Company Rates				
WNG (rates from newly-filed rate case)		$9.6832	$0.0871	
GRI		$0.1340	$0.0085	
ACA			$0.0024	
Total		$9.8172	$0.0980	
10% Discount		$8.8355	$0.0882	
Annual MGE Bill Assuming				
MDQ =	728,136			
and Annual Throughput =	79,730,892			
At Full WNG Rates		$85,779,081	$7,813,627	$93,592,708
At Rates Discounted by 10%		$77,201,173	$7,032,265	$84,233,437
Annual MGE Savings		$8,577,908	$781,363	$9,359,271

SCHEDULE
MTL - 11

Missouri Gas Energy
Case No. Gr-96-450
Gas Supply Costs
Mid-Kansas I vs Mid-Kansas II

	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96 *	Dec-96 *	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Total
Volumes	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Mid-Kansas I													
PEPL - Texas & Oklahoma	$2.1800	$2.1300	$1.6700	$1.6900	$2.5100	$3.6100	$4.1000	$2.7700	$1.6400	$1.7100	$1.9500	$2.1300	
WNG - Texas & Oklahoma	$2.1800	$2.1400	$1.6700	$1.6800	$2.5000	$3.6800	$4.3000	$2.8100	$1.6300	$1.7000	$1.9200	$2.1100	
North. Nat.Gas - Tex., Ok., Kan.	$2.1000	$2.0300	$1.5700	$1.6400	$2.4800	$3.5200	$4.0800	$2.7300	$1.5600	$1.6300	$1.8500	$2.0400	
NGPL - OKLahoma	$2.1800	$2.1400	$1.6700	$1.6900	$2.4900	$3.6200	$3.9500	$2.7600	$1.6200	$1.7100	$1.9500	$2.1300	
ANR - Oklahoma	$2.1800	$2.1400	$1.6700	$1.6900	$2.5000	$3.6000	$4.2000	$2.7700	$1.6300	$1.7100	$1.9600	$2.1300	
Noram (Arkla - Ark. & OK.)	$2.2000	$2.1600	$1.6800	$1.6900	$2.4300	$3.5500	$4.1100	$2.7300	$1.6100	$1.7200	$1.9500	$2.1500	
Monthly Average	$2.1700	$2.1233	$1.6550	$1.6800	$2.4850	$3.5967	$4.1233	$2.7617	$1.6150	$1.6967	$1.9300	$2.1150	
Rate @ 14% Premium	$2.4738	$2.4206	$1.8867	$1.9152	$2.8329	$4.1002	$4.7006	$3.1483	$1.8411	$1.9342	$2.2002	$2.4111	
Mid-Kansas I COG	$747,674	$382,041	$0	$279,363	$2,244,127	$5,897,982	$6,824,124	$4,082,605	$1,312,957	$1,390,253	$1,626,425	$1,735,401	$26,522,952
Mid-Kansas II													
Transok	$2.0100	$1.9200	$1.4800	$1.4900	$2.2000	$2.9300	$3.6500	$2.4800	$1.4100	$1.5200	$1.7900	$1.9200	
Rate @ 5% Premium	$2.1105	$2.0160	$1.5540	$1.5645	$2.3100	$3.0765	$3.8325	$2.6040	$1.4805	$1.5960	$1.8795	$2.0160	
Rate for Excess Volumes					$2.4200	$3.4650							
Mid-Kansas II COG	$637,871	$318,183	$0	$228,207	$1,654,607	$3,830,267	$5,563,855	$3,376,776	$1,055,799	$1,147,163	$1,389,358	$1,451,026	$20,653,114
Excess Vol. COG	$0	$0	$0	$0	$183,644	$670,318	$0	$0	$0	$0	$0	$0	$853,962
Mid-Kansas II COG	$637,871	$318,183	$0	$228,207	$1,838,251	$4,500,585	$5,563,855	$3,376,776	$1,055,799	$1,147,163	$1,389,358	$1,451,026	$21,507,076
Variance													$5,015,876

* *Includes excess volumes of 75,866 and 193,454 respectively (additional volumes nominated after first of the month).*

SCHEDULE
MTL - 12

PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Gas Cost Adjustment Tariff Revisions to be Reviewed in its 1996-1997 Annual Reconciliation Adjustment Account.
) *Case No. GR-96-450*
) October 28, 1998
) Jefferson City, Mo.

DEPOSITION OF DENNIS LANGLEY,

a witness, produced, sworn and examined on the 28th day of October, 1998, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the law offices of Brydon, Swearengen & England, 312 East Capitol, in the City of Jefferson, County of Cole, State of Missouri, before

KELLENE FEDDERSEN, CSR, RPR
ASSOCIATED COURT REPORTERS, INC.
714 West High Street
P.O. Box 1308
JEFFERSON CITY, MO 65109
(573) 636-7551

and Notary Public within and for the State of Missouri, commissioned in Cole County, in the above-entitled cause, on the part of the PSC Staff, taken pursuant to agreement.

A P P E A R A N C E S

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FOR THE MO. PUBLIC SERVICE COMMISSION:

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Deputy General Counsel
P.O. Box 360
Jefferson City, Missouri 65102

ALSO PRESENT: Dave Sommerer
Michael Wallis

SIGNATURE INSTRUCTIONS:

Presentment waived; signature requested.

EXHIBIT INSTRUCTIONS:

None marked.

I N D E X

MTL-12 (1 of 11)

TOLL FREE - 1-888-636-7551

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DENNIS LANGLEY, being sworn, testified as follows:
DIRECT EXAMINATION BY MR. SCHWARZ:
Q. Would you state your name for the record, please.
A. Dennis Langley.
Q. And by whom are you employed?
A. Kansas Pipeline.
Q. Have you given depositions before?
A. Yes.
Q. Just to go over the rules, I will announce publicly that my intent is not to confuse, obfuscate or mislead you by my questions. On the other hand, I'm a lawyer. And if you don't understand the question or it's not clear, please advise me and we'll see if we can't at least get the questions squared away.
I think with that out of the way, I'll ask you to repeat who you work for.
A. Kansas Pipeline.
Q. Kansas Pipeline. Is that part of what might be known as the Bishop Group?
A. Bishop Group is the sole stockholder for the Kansas Pipeline.
Q. Okay. What's your relationship with the Bishop Group?

A. I'm a stockholder. I'm the -- I'm also the president and CEO of Bishop Group as well.
Q. What other entities does the Bishop Group own?
A. I don't know that I'll be able to list all of them. I can do it generically.
Q. What you know.
A. Okay. There's a construction and engineering entity. There is a project development entity. There is a marketing entity. There is a -- and then there are the regulated pipelines. And I may be leaving something out, but I don't think I am.
Q. The regulated pipelines would be what?
A. Well, right now it's now Kansas Pipeline. We're consolidated. So all of the entities were placed together as one entity.
Q. Let's go back to say 1995.
A. Okay.
Q. What entities would there have been?
A. In '95, it's either A or B. I can give you both, one or the other. I'd have to go back and look at the time to be precise.
There was either two Kansas regulated entities or one. I believe there was only one because we'd asked for consolidation of them and was -- were

granted that by the KCC. If there were two, it was Kansas Natural and Kansas Pipeline. If there was one, it was Kansas Pipeline, and that was the consol-- upon our motion to the KCC to consolidate, and the motion was granted, or our request, I think, as part of the rate case and it was granted as part of the rate case.
In addition to that, there would have been KANSOK, which is an Oklahoma intrastate whose rates are regulated by the FERC and whose hearings on the KANSOK rates were by the FERC, and Riverside which is a -- was a FERC regulated.
Q. And my understanding is that Riverside had a pipe that went from Oklahoma to Kansas as well as from Kansas to Missouri?
A. That's correct.
Q. Okay.
A. Riverside was the only entity at that time that crossed state lines.
Q. Are you familiar with contracts between, I'm going to use the Bishop Group, okay, and Western Resources that were in place in 1990 and then amended in 1991?
A. And by the Bishop Group you mean anything -- any of the categories we just described?
Q. Right.

A. Just to make sure that we were clear.
Q. Let me -- I can refine it for you. And that were the subject of Missouri regulatory hearings in Case GR-93-140.
A. Yes.
Q. Okay. And are you also familiar -- I'm going to go back.
There were three contracts executed in February of 1995, one of which was attached to Mr. Langston's direct testimony, which I'll refer to as Mid-Kansas 2, a transportation-only contract which, my understanding is, was tied to Mid-Kansas 2, which has been referred to as Riverside 1.
A. That's what you're calling Riverside 1. Okay.
Q. And then -- well, that's what Mr. Monaldo called it. I assume that you're --
A. Just make sure that we get the same labels.
Q. Right. And then there was a third contract called Riverside 2 for firm transportation.
A. Which was assigned to KM.
Q. Well --
A. Is that the one you're referring to?
Q. Well if -- yes.
A. Okay.

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* means see Errata Sheet for change

MTL-12 (3 of 11)

Q. Well, one of my questions is going to be, was it assigned to KM, so --
A. Okay. I just want to make sure I got the right labels on the right contracts.
Q. Right.
MR. MONALDO: Is Riverside 2 the one you're referring to that had the 150,000 volume?
MR. SCHWARZ: Yes.
MR. MONALDO: And Mid-Kansas 2 was the 46,332 a day, and Riverside 1 is for the same volumes but for transportation only?
MR. SCHWARZ: That's my understanding.
THE WITNESS: I'm going to ask on the record, if I screw up the label, because those are not the way I normally label them, I'm going to ask my counsel to tell me I'm referring to the wrong one.
BY MR. SCHWARZ:
Q. Well, and again, I don't want to -- things are confused enough as it is.
A. Right.
Q. We don't need to --
A. I recognize a need to adopt to a common labeling.
Q. Would you tell me to the best of your recollection the difference between the '90-'91

agreements that were the subject of 93-140 and the contracts which were executed in February of 1995?
MR. MONALDO: For purpose of clarification, you're asking him to compare Mid-Kansas 2 to the --
MR. SCHWARZ: I want him to compare -- my understanding would be, it would be the 1990 contract was amended in 1991 with the three agreements that were signed in February of '95.
MR. MONALDO: Object to the form as vague and compound. Go ahead and answer.
MR. SCHWARZ: I want to clear it up for the witness.
BY MR. SCHWARZ:
Q. Do you understand?
A. I know the three to which you're referring, but --
Q. Right.
A. -- without reviewing them piece by piece, I can't do a comparison. I think what you're asking me is a more generic, what was -- what was the subject matter of them and --
Q. And what you remember about them, and I'm not suggesting -- I mean, we have the contracts. We can look at them. But from your memory, what's the difference between where you were in '90 with the '91

contract and where you were in February of '95 after the three were signed?
MR. MONALDO: Still object to the form, but go ahead.
THE WITNESS: Okay. I'm not going to -- you can help me put the right label on them. There was a contract with Western Resources that was a contract where the executing party on our side was Mid-Kansas, and it was for a combination of sell -- it was a sales contract. Basically it -- title was delivered to what was then Western or then KP&L actually at the Missouri side, and we were responsible for upstream, we Mid-Kansas was responsible for all upstream transportation.
And that was rolled into the price, and the price was based on cost of service of all upstream components as determined by the regulatory bodies and a gas component, that I don't remember whether we had a margin on the gas component or didn't or whether that was just a pass-through, but there was a gas component to it.
And the way you got to the price was to add those two things together and that was the price. What label appropriately applies to that contract?
MR. MONALDO: Well, you can't --

THE WITNESS: I can't do that? May I ask counsel what label applies to that? That's the original Western contract that relates to Missouri. There were other Western contracts that preceded that that related only to Kansas.
MR. SCHWARZ: Correct.
MR. MONALDO: Excuse me.
(AN OFF-THE-RECORD DISCUSSION WAS HELD.)
THE WITNESS: And let the record show I talked to counsel who's explained to me a little bit about the history of the contracts.
There's some confusion as to whether -- still in my mind as to whether the original contract was a bundled contract or that became a successor contract and whether it was -- there was a separate contract that coupled with Riverside or not, and I don't honestly recall.
BY MR. SCHWARZ:
Q. That's fine. That's fine. Okay. My question was, though, compare that earlier contract with -- the provisions of the earlier contract with the provisions of the three contracts that were signed in February of '95. How did -- how did the relations of the parties differ?
A. All I'll be able to do now for you is what I

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can recall without looking.

Q. That's fine.

A. I want to preface it by saying clearly there were going to be other differences than I can recall right now.

Q. Absolutely.

A. One of the differences is the keep whole provision. The first document was an absolute keep whole provision that simply said that if there was ever a regulatory disallowance, we would be absolutely kept whole, and the quid pro quo to us paying it would be to be kept economically whole.

It didn't provide -- although there was a lot of discussion with Western and even, if I recall, some documents that were generated that would indicate what we would do in that event, it didn't provide other than to have an absolute statement keep whole.

When MGE, when we re-executed contracts, any of the versions with MGE, the provision then said altered radically that methodology, that keep whole, and it was no longer what I would consider a keep whole provision. In fact, it was not a keep whole provision. It was just an extension of the term of the contract that really would struggle to keep us whole. It might. It might not keep us whole. That's

one difference.

The second difference is, there was an intent on our part to either seek bundling of the multiple interstate pipelines or have -- or have another way to get FERC regulation that would have put all of the pipelines together either for rate purposes or regulatory purposes, and there would have been a multi-state tariff that was being sought or federal or when we would become subject to FERC regulation.

Then one of the contracts, the one I believe you refer to as Riverside 1, goes into effect. And at that point, when that would happen, the sales function would also end, and it would become purely a transportation function contract.

And the defeasing event if I remember, the thing that made that happen would be either FERC acceptance of the multi-state tariff, which it did not, or FERC jurisdiction asserted over, which it did. So we would therefore now be in that contract.

And my recollection of the two is that other than the sales function differences between the second and the third contract, what I'm calling the -- what you're calling Riverside 1 and I would call -- I think you're calling it Mid-Kansas 2 and Riverside 1. The difference there is nothing more than you're now FERC

regulated and you're now transportation only or you're FERC multi-state approved and you're transportation only. My recollection is that's the primary difference between those two.

I know that in negotiations they had several other issues that, meaning MGE, that they were driving at that were -- they perceived to be economically beneficial and I perceived to be economically detrimental that we conceded, but I can't recall what they are right now. Maybe if you refresh my memory I might.

Q. I'm just looking for what you can recall. That's fine. And that brings us, I think, to Riverside 2.

A. *That's the 150?*

Q. Right.

A. That contract emanated out of what I perceived to be -- I don't know what you would label it, what you did label it. It would have been the predecessor contract with Western that would have been the southern entry to both Kansas and Missouri off Panhandle, and it contemplated construction. And after -- after Western sold to MGE, that was the subject of the lawsuit, how that would be split between Kansas and Missouri and what the -- what terms

they would -- would be inherited by each.

And if you're asking me to contrast it with its predecessor, I don't recall what the contrast would be.

Q. There were no similar terms? I mean, it's just --

A. Volumes changed. I remember that. Volumes increased. I don't remember what happened to the price, and I don't -- without laying the two beside each other, I'm not going to be much help beyond that.

Q. What we're calling Riverside 2, was there a -- that dealt only with MGE?

A. It dealt only with MGE. There was another document in Kansas that dealt with the Kansas side and that was with Western. So because the ownership had divided at the state line, we had to split the contract --

Q. Right.

A. -- as well.

Q. Was the contract on the Western side renegotiated at the same time?

A. Yes.

Q. You mentioned litigation. Who was involved in that litigation?

A. If I recall, there were two cases, and the

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answers may be different for both cases, but I can't -- but this I can remember. Let me tell you what I think was the case. I know Western was involved in one of the cases, and a declaratory
*
judgment was sought regarding -- and I think that was with respect to what you're calling Riverside 2, the 150 to the south, which is what it ultimately became.
*
And the other -- the other was relating to a construction contract and may also have related to
*
what you're calling as Mid-Kansas, the Mid-Kansas contract. I know it related to the construction. There was a construction contract. I think they -- and that was MGE and us. Western may or may not have
*
been involved in that, but I don't remember.
Q. Do you recall when these suits were filed? Let me ask you this. Let me try to --
A. Circa '95, '96.
Q. Well, were they -- were they filed after MGE had acquired its Missouri properties from Western Resources?
A. Yes.
Q. My understanding, and I haven't been involved in the cases, was that those cases settled; is that correct --
A. That's correct.

Q. -- or did they go to trial? Do you recall when they settled?
A. Not really. It was within six months of filing. It was before any depositions.
Q. Would it have been before the execution of or at the same time as the execution of the February '95 contract?
A. If that -- if I can assume that they were executed in February of '95, the answer would be yes.
Q. I mean, earlier on, before you indicated that Riverside -- that the Bishop Group's interest in
*
Riverside 2 was assigned to KM.
A. Correct.
Q. When did that occur?
A. I believe in late '96.
*
Q. When did discussions begin with KM about it?
A. I believe the summer of '96.
Q. Under the Riverside 2 agreement with MGE and what I assume is a parallel or similar agreement on the Kansas side with whatever Western Resources was calling themselves at the time, who would be responsible for securing upstream capacity on Panhandle? Would that have been your responsibility? By you I mean the Bishop Group.
A. By our agreement?

Q. Yeah. Yeah. Or was Western and MGE supposed to have --
MR. MONALDO: Let me back up. First of all, I'm going to object to the series of questions that you're going into contracts. I don't know. If you're doing preliminary background, that's fine, but if you intend to go into contracts between Kansas Pipeline and Western Resources not regulated by the Missouri Public Service Commission, that's not even -- that's not relevant to this case nor I don't think will lead to discoverable information.
So are you going to start going into the Kansas contracts or just -- I'm not trying to be -- I'm just saying --
MR. SCHWARZ: I don't think I'm going to go into the Kansas contracts, but to the -- I will tell you that I think it's relevant to the extent that you have parallel deals, you have contracts, a single contract which in the merger agreement was assigned partly to Kansas and partly to Missouri, and agreements which deal with the subsequent disposition of those. I think they're relevant.
Secondly, this is discovery, and it doesn't have to -- I mean, it's pretty narrow.
MR. MONALDO: Let me talk to the witness

just a minute.
(AN OFF-THE-RECORD DISCUSSION WAS HELD.)
MR. SCHWARZ: Read back the question.
THE REPORTER: "Question: Under the Riverside 2 agreement with MGE and what I assume is a parallel or similar agreement on the Kansas side with whatever Western Resources was calling themselves at the time, who would be responsible for securing upstream capacity on Panhandle? Would that have been your responsibility? By you I mean the Bishop Group."
MR. MONALDO: I'm going to object to the form of the question as compound, too. It states facts not in evidence. There's been no testimony of a parallel contract.
MR. SCHWARZ: This is a discovery deposition.
MR. MONALDO: I can also object to questions that aren't accurate and could be misleading. So --
MR. SCHWARZ: If the witness -- if the witness doesn't understand, the witness is directed to ask me to clear it up.
MR. MONALDO: I made the objection. Now, the witness can answer.
BY MR. SCHWARZ:
Q. Answer the question.

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A. The Kansas contract in negotiations was discussed, both cases, and I don't recall which way found its way in the terms of the agreement. So I can't -- I don't recall which of those two. I do recall both being discussed.

Q. That's fine. Did the Bishop Group receive consideration for signing the Riverside 2 agreements?

A. Yes.

Q. What was that consideration?

MR. MONALDO: I'm going to object to that question. It's asking for highly confidential information, and it relates to a decision made by Bishop 18, 20 months after the execution of these agreements or the February agreement, and it's not related to any decision made by MGE. So it could not possibly lead to discoverable information.

MR. DUFFY: I would just like a clarification of your question as to assignment to whom are we talking about?

MR. SCHWARZ: Assignment to KM. *

THE WITNESS: Again, using -- do you want me to go ahead and answer?

MR. MONALDO: I'm going to instruct the witness not to answer at this time based upon the objection.

THE WITNESS: On instruction of counsel, I won't answer at this time.

BY MR. SCHWARZ:

Q. When did the south side -- can we call it south side project? I mean, do you understand what I'm talking about?

A. Yes. In fact, that's better for me than the other.

Q. All right. When did -- when was the south side project first conceived?

A. Contemporaneous with the execution of whatever you called the first contract with Western that crosses into Missouri.

Q. Okay. How did the project progress? That is, when did -- did it ever get to the stage where engineering was --

A. Oh, yeah. Engineering was done even back at that time. There were -- at that time several alternatives were looked at, and we narrowed down from among, I don't know, I forgot how many. We had a process that we went through with Western that lasted a long time.

Q. Did construction begin?

A. Then?

Q. Let me strike that. Well, did construction

begin?

A. Yes.

Q. Do you recall when construction might have begun?

A. Not specifically, but certainly in '96, maybe '95.

Q. Okay.

A. I mean, construction was in process in '96. It may have been begun in '95 earlier. *

Q. And was that construction part of what was assigned to KM? *

A. Yes.

Q. Were the Bishop Group's contract rights with MGE and Western also part of the assignment?

A. Yes.

Q. Going back to the contracts that were signed in February of 1995, do you recall when negotiations for those contracts began?

MR. MONALDO: Are you talking about with respect to MGE?

MR. SCHWARZ: Yes, with respect to MGE.

THE WITNESS: Depends on how generically I take your question. Do you mean the exact contracts that were signed, or do you mean anything that was discussed as a precursor to that?

BY MR. SCHWARZ:

Q. The first conversations that involved the --

A. Those exact contracts emanated out of settlement discussions. So if that's what you're asking me, it would have been whatever the time period from the filing of the case to the settlement discussions.

If you were to ask me did we have discussions with them that was more generic, yeah. We started discussing it the first time I met them.

Q. Well, and now I'm not clear. The litigation -- I mean, there's enough litigation to gag a maggot in these deals. That's the litigation that was going on in the federal district courts as opposed to GR-93-140 or regulatory litigation?

A. That's correct.

Q. It was the court litigation as opposed --

A. That's what I was referring to.

Q. -- as opposed to regulatory litigation? Eventually we'll get the terms.

A. My prior statement was referring to the court litigation.

Q. Okay. Do you remember who initiated negotiations?

A. No.

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Q. You referred earlier that Bishop has a marketing entity?
A. Yeah. Marketing entities was probably a better way to describe it.
Q. Can you tell me who those are?
A. I think the way Mid-Kansas was established it was exclusively marketing. I think Margaska was exclusively marketing.
Q. Is that M-a-r?
A. M-a-r-g-a-s-k-a.
Q. Okay.
A. I think there may have been one or two others that were in the time frame we're talking about were probably shell companies that had performed prior earlier functions that were not gas related. They were in the form of marketing, other forms of marketing.
Q. Do either Mid-Kansas or Margaska have agreements currently with MGE?
A. I can't say for sure, but I don't -- I do not believe so.
Q. I know I -- at least I think that I asked you who initiated the negotiations, and I can't remember your answer.
A. I don't recall, and I'm referring to the

negotiations that took place in the context of the civil litigation.
Q. Right. Right.
MR. SCHWARZ: I don't think I have anything else.
MR. DUFFY: I've got a few questions.
CROSS-EXAMINATION BY MR. DUFFY:
Q. One of the recent answers you gave to Mr. Schwarz, if I understood his question correctly, and maybe I didn't, he said do you have any existing contracts or are there any existing contracts between Mid-Kansas or Margaska and MGE? And think you said no.
A. I said I don't believe there are.
Q. Okay.
A. I don't know for sure.
Q. Am I incorrect, I thought that this thing we called Mid-Kansas 2 dated 24 February '95 between Missouri Gas Energy and Mid-Kansas Partnership was still in effect and it runs to 2009 or something like that?
A. If it was, then --
MR. MONALDO: Off the record.
(AN OFF-THE-RECORD DISCUSSION WAS HELD.)
THE WITNESS: My recollection is that what

you're referring to as the Mid-Kansas 2 contract has now been superseded by Riverside 1, which Mid-Kansas 2 is not a party to. If I am incorrect in my recollection, you can ascertain that by looking at the term agreements of those two agreements, the term provisions.
I remember -- my recollection is that the Riverside 1 agreement goes into effect upon the cessation and interrupts the longer term of Mid-Kansas 2, and I think that it's Riverside 1 that is now operative, not Mid-Kansas 2.
BY MR. DUFFY:
Q. Okay. I would like to take you back in time to early to mid February '95, which I'm assuming was the time during which there were rather intense negotiations on what we've been calling this Mid-Kansas 2 interim firm gas purchase contract that is attached to Mr. Langston's direct testimony. Am I correct that that's when those negotiations would have occurred?
A. That's correct.
Q. Okay.
A. There or preceding that, immediately preceding that.
Q. Maybe sometime in January of '95, but

unlikely that they were back to Christmas of '94?
A. I don't recall precisely. My belief is that it was probably January or February.
Q. Okay. And this contract was between Missouri Gas Energy and Mid-Kansas Partnership, and my understanding from your previous testimony is that you occupy an executive function or at that time occupied an executive function with Mid-Kansas Partnership; is that right?
A. I don't know.
Q. Well, did you --
A. I occupied an executive function with the sole stockholder.
Q. Okay. Let's kind of cut to the chase here. Were you in -- were you responsible for decision making in the negotiations on behalf of Mid-Kansas Partnership in the negotiations of this contract?
A. Yes.
Q. And can you just briefly explain to me how you would be in that function, or were you the president of Mid-Kansas or you controlled the sole -- you controlled the sole stockholder, or just give me a general idea.
A. I don't know what capacity I held at Mid-Kansas. I know that in Bishop Group I was the CEO

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of Kansas Pipeline, and probably Riverside I was the CEO. So the entities over which transportation would have taken place I would have been the CEO.
    Q. Would I be correct, then, in characterizing you as you were the person who would make management decisions on behalf of Mid-Kansas with regard to the negotiations on this contract?
    A. Yes.
    Q. And there wasn't anybody else in a similar role or that you shared that role with?
    A. No. You mean in an ultimate sense? I mean, there were other people involved, but I made the ultimate decision, if that's your question.
    Q. That was my question. I don't know whether you know this or not, but at least I've been led to believe that the Staff in this proceeding is alleging that Missouri Gas Energy had some opportunities to negotiate some different types of provisions in this Mid-Kansas 2 contract.
        And the one that I'm most familiar with is an allegation that Missouri Gas Energy should have negotiated a complete termination of this Mid-Kansas 2 contract in early '95, the result as I understand it being that Missouri Gas Energy and Mid-Kansas would part ways with no compensation one way or the other.

In other words, that there would be a cancellation of the '90 agreement as amended by the '91 agreement, and this Mid-Kansas 2 agreement would not have taken place. There just would have been a parting of the ways.
        That's my understanding of what they're alleging, whether that's right or wrong, but that's my understanding.
        Now, I want to ask you to put yourself back in early February of '95, and if MGE hypothetically had come to you and said in those negotiations we want out of the '90 agreement as amended by the '91 amendment. We don't want to see you anymore. We don't want anything to do with Mid-Kansas. We want you to go away, and we don't want to pay you any money to get out of the existing agreement, meaning '90 as amended in '91.
        Did you have a -- would you be able to state today what your position on behalf of Mid-Kansas would have been under that hypothetical situation?
    A. Sure. There's no possibility that we would have considered that. We couldn't have. That would have been a violation of our debt covenant. They were collateral on the debt. We would have had to have bank approval. There would be no possibility of bank

approval for that. That was 40 percent of the revenue stream at the time. And so there is no possibility that that would have been considered.
    Q. Do you have a recollection as to whether MGE suggested that possibility to you in those negotiations?
    A. No.
    Q. You do not recall any such suggestion?
    A. I don't recall.
    Q. I take it from your previous answer that you would --
    A. I think I probably would have recalled if they did because I would have left a hole in the ceiling.
    Q. I take it from that answer that you would not have unilaterally offered to walk away?
    A. Absolutely. I've already told you, we could not have done it. If I had wanted to do that, which I clearly would not have wanted to do so, I could not have done so. The banks would not have -- it would have been a violation of the loan agreement and their collateral.
    Q. What is your view vis-a-vis the Missouri ratepayers of Missouri Gas Energy? Put yourself in the shoes of Missouri ratepayers of Missouri Gas

Energy after the execution of this Mid-Kansas 2 agreement. Do you think that they were better or worse off after the execution of this agreement?
    A. My recollection is that every amendment we made was in -- was a material economic benefit to the consumers, but you'd have to take me through them carefully, or neutral, either had no impact at all or was economically beneficial.
        But we'd have to go through line by line for me to be more specific. And if you want to discuss it topic by topic, I think I can probably do that as well, but you're going to have to suggest the topics.
    Q. Is it your impression, then, that Mid-Kansas gave up a lot of things in the Mid-Kansas 2 agreement to MGE?
    A. Absolutely, yes.
    Q. Did Mid-Kansas get anything of significance out of MGE as a result of Mid-Kansas 2? What benefits did you get?
    A. The only benefits we got were kind of two-fold, I guess. One would be we always viewed this contract as a benchmark for creating a second southern contract, and if we didn't have the revenue stream from this contract we couldn't have done the second contract. We couldn't have proceeded with that. So

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we --
Q. Let me stop you just a second. The second contract meaning --
A. Meaning the southern --
Q. -- the southern connection everybody's talking about?
A. Right.
Q. Sorry. Go ahead.
A. And so it was absolutely essential to do that. So I would say we got a benefit and Missouri customers got a benefit and MGE got a benefit by closing that up, by proceeding in a way that would on a weighted average lower costs. And that was one -- this contract as originally contemplated with Western was simply a bench -- beachhead contract where we * were -- that was what got us into the Missouri market, and it was originally contemplated and executed at the same time as the southern contract. So that was the concept. So we got to move forward with that project. *
The second thing that it did was, we were -- we're a small company, and we were being -- in my mind we were being remise but at that time in the context * of all revenues were shut off, and it turned revenues back on.
Q. What do you mean, all revenues were shut

off?
A. They ceased making payments.
Q. Who's they?
A. MGE, your client.
Q. Ceased making payment for what?
A. Under the contracts.
Q. MGE ceased making payments under the 1990 agreement as amended in '91?
A. That is my recollection. They were disputing and they stopped the payments, and to get the payments going again, I really didn't have too much of a choice.
Q. Because they -- those payments represented what percentage of your revenues?
A. 40 percent, roughly, more or less, give or take 2 percent.
MR. DUFFY: I think that's all the questions I have.
MR. MONALDO: Off the record.
(AN OFF-THE-RECORD DISCUSSION WAS HELD.)
REDIRECT EXAMINATION BY MR. SCHWARZ:
Q. What I have is a copy of Mid-Kansas 2 that was attached to Mr. Langston's direct testimony. Okay. You earlier -- and this is an attachment to that. You'd earlier referred to, I think you called

it a keep whole provision?
A. Yeah. The modification of the keep whole provision.
Q. Is that -- and I'm --
A. That is a calculation. What you're showing me is Exhibit 4.
MR. MONALDO: Let me him ask a question.
BY MR. SCHWARZ:
Q. It is Schedule 4.4B attached to the Mid-Kansas 2 interim firm gas purchase contract again attached to Mr. Langston's direct testimony. Is this the example of the keep whole?
MR. MONALDO: I'm going to object. It misstates what he said. There was a make whole provision in the prior contract, and there was a modification to it in this contract.
BY MR. SCHWARZ:
Q. But --
A. Let me go ahead and answer. I did not mean to characterize that this is a keep whole provision. The old agreement that was set aside was a keep whole provision. This provision, depending on the luck of the draw, may or may not keep you whole. In most cases it would not keep you whole.
Q. Correct. But that's what this attachment

is. It's -- it may or may not be a keep whole provision, but it's the closest thing that this contract has to it?
A. I would -- what I would say -- allow me to characterize.
Q. Absolutely.
A. The way I would characterize this is this is the schedule that explains how you would calculate if a regulatory disallowance was approved, what -- how you would calculate the extension of the term of the contract, but it is not a keep whole provision.
Q. Let me go back to the provision that you would characterize as a make whole.
A. The prior provision.
Q. In the prior contract?
A. Right.
Q. What was that to make you whole from?
A. Any economic loss that I sustained I would be made up for immediately, simultaneously.
Q. Economic loss from any cause whatever?
A. Yes. Any so, for example, if there were a regulatory disallowance that added to a million dollars, I'd get a million dollars by a modification to the agreement in some other way. That could be a dozen different ways I could offer that, but --

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several different ways I could offer that, but that was the old provision. In the old provision we were kept absolutely whole. Under the new provision we were not.

MR. SCHWARZ: I'm done.

MR. MONALDO: I don't have any questions, but just for the record, to clarify, he said he was an employee of Kansas Pipeline. The full name is Kansas Pipeline Operating Company. I just want that clear for the record. And Bishop Group is not the sole stockholder in Kansas Pipeline. It's the parent of the party that owns Kansas Pipeline. Just didn't want to misstate. With that clarification, I don't have any questions.

MR. SCHWARZ: Given the indulgence that you-all have had with trying to identify the divisions and departments of the Commission that we don't know, I think that's fair. I have nothing further.

(PRESENTMENT WAIVED; SIGNATURE REQUESTED.)

(SIGNATURE ON FOLLOWING PAGE.)

____
DENNIS LANGLEY

Subscribed and sworn to before me this ______ day of ______, 1998.

____
Notary Public in and
for ______ County
State of Missouri

NOTES

C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Kellene Feddersen, Certified Shorthand Reporter with the firm of Associated Court Reporters, Inc., do hereby certify that pursuant to agreement there came before me,

DENNIS LANGLEY,

at the law offices of Brydon, Swearengen & England, 312 East Capitol, in the City of Jefferson, County of Cole, State of Missouri, on the 28th day of October, 1998, who was first duly sworn to testify to the whole truth of his knowledge concerning the matter in controversy aforesaid; that he was examined and his examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing pages; and the witness and counsel waived presentment of this deposition to the witness, by me, and that the signature may be acknowledged by another notary public, and the deposition is now herewith returned.

I further certify that I am neither attorney or counsel for, nor related to, nor employed by, any of the parties to this action in which this deposition is taken; and further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, or financially interested in this action.

Given at my office in the City of Jefferson, County of Cole, State of Missouri, this 2nd of November, 1998. My commission expires March 28, 2001.

____
KELLENE FEDDERSEN, CSR, RPR
Notary Public, State of Missouri
(Commissioned in Cole County)

COSTS: (Computation of court costs based on payment within 30 days.)
Paid by Attorney for MGE:
Paid by Attorney for Mid-Kansas Partnership:
Paid by Attorney for PSC Staff:

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Dennis M. Langley
DENNIS LANGLEY

subscribed and sworn to before me this 30th day of November, 1998.

W. A. B. Kennedy
Notary Public, State of Missouri
County of Boone
My Commission Expires 03/11/00

Notary Public in and
for Boone County
State of Missouri

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Case Caption: In the matter of Missouri Gas Energy

Date Taken: October 28, 1998

Page	Line	Corrections	Reason
5	21	insert ", but I'm not certain which was the case in 1995" after "other"	clarification
5	23	replace "was" with "were"	correct statement
5	25	insert "KCC" after "for", replace "and" with "which", strike "-- were"	correct statement
6	1	strike "that"	correct statement
6	1	insert "consolidation had not been accomplished by 1995, then" after "If"	clarification
6	1	replace "it was" with ". . ."	clarification
6	3	strike "the consol -- upon"	correct statement
6	4	insert "on" before "our"	correct statement
6	5	replace "or" with "on"	correct statement
6	11	replace first "a" with "and"	correct statement
6	11	strike second "a"	correct statement
7	18	insert "to" after "Just"	clarification
7	21	change "KM" to "KN"	correct name
8	2	change "KM" to "KN"	correct name

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Page	Line	Corrections	Reason
28	1	insert ". . ." after "Riverside"	correct sentence
28	1	insert "also" after "was"	correct statement
29	23	insert "(the contracts)" after "They"	clarification
32	15	strike "bench"	correct statement
32	19	insert "southern" before "project"	clarification
32	22	insert "subjected to economic duress" after "being"	correct statement
32	22	strike "remise but"	correct statement
32	22	insert commas before "at" and after "time"	clarification
4	22	replace "stockholder" with"equityholder", replace "for" with "of"	correct statement
5	1	strike words "I'm the --"	clarification
5	6	insert "attempt to" after "I can"	correct statement
5	10	strike "is a"	clarification
5	11	strike " and then there"	clarification
5	14	strike the second "now"	correct statement
5	15	change "We're" to "We've"	correct statement
5	15	insert "previous" after "the"	clarification

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Page	Line	Corrections	Reason
24	7	"Margaska" should be "MarGasCo"	correct statement
24	10	"Margaska" should be "MarGasCo"	correct statement
24	13	strike "were"	clarification
24	15	replace "were" with "may", insert "have been" before "gas"	correct statement
24	18	"Margaska" should be "MarGasCo"	correct statement
25	12	"Margaska" should be "MarGasCo"	correct statement
26	2	the numeral 2 should be stricken	correct statement
26	5	"term" should be "terms" and first "agreements" should be stricken	correct statement
26	10	insert "the" before "Riverside" and insert "contract" after numerals 2 and 1	clarification
26	11	insert "the" before "Mid-Kansas" and insert "contract" after 2	clarification
26	23	"There or" should be "They are"	correct statement
27	13	insert "of the partners of Mid-Kansas" after "stockholder"	clarification

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Page	Line	Corrections	Reason
14	6	strike "that" after "issues"	clarification
14	6	the words "meaning MGE" should be put in parentheses and moved to line 5 after the word "they"	clarification
14	7	strike "were"	correct statement
15	1	strike "they would"	correct statement
15	8	"increased" should be "decreased"	correct statement
16	5	insert the following after the word "sought": "by MGE vis-a-vis us with a different cause of action by MGE vis-a-vis Western"	clarification
16	8	insert "lawsuit" after the first "the other" and stike the second "the other"	correct statement
16	10	strike words "as Mid-Kansas"	correct statement
16	14	insert "lawsuit" after "that"	clarification
17	12	"KM" should be "KN"	correct statement
17	16	"KM" should be "KN"	correct statement
20	20	"KM" should be "KN"	correct statement
22	9	insert "or" after "'95"	correct statement
22	11	"KM" should be "KN"	correct statement

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Case Caption: In the matter of Missouri Gas Energy

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Page	Line	Corrections	Reason
7	21	"KM" should be "KN"	correct name
12	4	can should be cannot	correct statement
12	16	insert "the exact mechanisms of how KPL would keep us whole" after "provide"	clarification
12	17	the words "keep whole" should be in front of word "statement" rather than after	correct statement
12	18	second "when" should be "and"	correct statement
12	19	"the provision" should be "these provisions"	correct statement
12	19	the last word "said" should be stricken	correct statement
12	25	insert "or" after first "might"	correct statement
13	8	strike "federal or"	clarification
13	9	strike "when"	clarification
13	15	strike last word "the"	clarification
13	16	strike words "thing that made that happen"	clarification
13	18	"FERC" should be "FERC's", "asserted" should be "assertion", insert "us" after "over"	correct statement
14	4	"difference" should be "differences"	correct statement

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Page	Line	Corrections	Reason
8	14	insert "labels" after "those"	clarification
8	22	strike second "a"	clarification
9	20	strike "a" and "what was"	clarification
10	9	strike "it was for a combination of sell --"	clarification
10	10	insert "to the gas" after "title"	clarification
10	11	strike "then", replace "actually" with "I believe"	correct statement
10	12	insert ". . ." after "upstream"	clarification
10	15	replace "that" with "upstream transport"	clarification
10	15	insert "of the gas" after "price"	clarification
10	18	insert a period after "component"	correct statement
10	18	strike "that"	correct statement
10	23	insert ". . .commodity and transportation. . ." after "together"	clarification

MTL-12

SCHEDULE
MTL - 13

81 FERC ¶ 61,005

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
Vicky A. Bailey, and William L. Massey.

Kansas Pipeline Company Riverside Pipeline Company, L.P. 1/	Docket Nos. CP96-152-000 CP96-152-001
Transok, Inc.	CP97-738-000
KansOk Partnership	Docket No. PR94-3-002 (Not Consolidated)
KansOk Partnership Kansas Pipeline Partnership Riverside Pipeline Company, L.P.	Docket No. RP95-212-002
Williams Natural Gas Company v. Kansas Pipeline Operating Company Kansas Pipeline Partnership KansOk Partnership Riverside Pipeline Company, L.P.	Docket No. RP95-395-002 (Consolidated)

ORDER GRANTING AND DENYING REHEARINGS,
ISSUING CERTIFICATES,
AND ESTABLISHING REFUNDS

(Issued October 3, 1997)

In this proceeding, the Commission is issuing a certificate of public convenience and necessity under section 7(c) of the Natural Gas Act (NGA) to Kansas Pipeline Company to operate the natural gas pipeline the Commission found to be jurisdictional in

1/ This application was filed by Riverside Pipeline Company. However, in its amendment filed on February 18, 1997, Riverside Pipeline Company requested that the instant certificate be issued instead to a company to be formed named Kansas Pipeline Company, which would own 99.999 percent of the partnership interests of Riverside Pipeline Company, Kansas Pipeline Partnership, and KansOk Partnership, as discussed in the body of this order. Bishop Pipeline Company would own the remaining 0.001 percent.

its November 2, 1995 order. 2/ The Commission is lifting its stay of that order and denying the requests for rehearing. The Commission is approving a rate base of approximately $39 million, a cost of service of approximately $21.8 million, initial rates based on those figures, and a tariff. The Commission is also requiring the applicant to offer no-notice transportation service. In addition, the Commission is issuing the applicant blanket certificates under Part 284, Subpart J and Part 157, Subpart F of the Commission's regulations.

On its own motion, in Docket No. CP97-738-000, the Commission is issuing a limited jurisdiction NGA section 7(c) certificate to Transok, Inc. (Transok) to operate leased capacity to deliver gas in interstate commerce to Kansas Pipeline Company's customers, as discussed below. In addition, in Docket No. RP95-3-002, the Commission is granting, in part, rehearing of its order issued on June 15, 1995, and establishing refunds in that proceeding. 3/

I. Background

This proceeding began with the filing of KansOk Partnership's (KansOk's) second NGPA section 311 rate proceeding, in Docket No. PR94-3-000. There, two local distribution companies, Missouri Gas Energy (MGE) and Western Resources, Inc. (Western Resources), filed protests alleging that KansOk and its affiliates collectively should be treated as an interstate pipeline and should be required to file a rate case pursuant to section 4 of the NGA. 4/

In response to these protests, the Commission issued a show cause order on May 31, 1995. 5/ That order required: (1) KansOk, Riverside Pipeline Company, L.P. (Riverside), and Kansas Pipeline Partnership to show cause why the Commission should not disregard their corporate forms and find them to be one interstate pipeline system subject to the Commission's NGA jurisdiction; and (2) KansOk to show cause why, since all but a

2/ KansOk Partnership, et al., 73 FERC ¶ 61,160 (1995), order granting stay, 73 FERC ¶ 61,293 (1995).

3/ KansOk Partnership, 71 FERC ¶ 61,340 (1995).

4/ See KansOk Partnership, 71 FERC ¶ 61,340, at 62,337 (1995).

5/ KansOk Partnership, et al., 71 FERC ¶ 61,242 (1995).

de minimis amount of the service it provides is in interstate commerce, it should not be found to be an interstate pipeline subject to the Commission's NGA jurisdiction. 6/ Subsequently, a competitor, *Williams Natural Gas Company (Williams)*, filed a complaint in Docket No. RP95-395-000 alleging that the three affiliates constituted an interstate pipeline system.

On November 2, 1995, the Commission issued an order in Docket No. RP95-212-000, et al. finding that the natural gas pipeline system composed of KansOk, Kansas Pipeline Partnership, and Riverside, and operated by Kansas Pipeline Operating Company constituted one interstate pipeline system subject to the Commission's jurisdiction under the Natural Gas Act (NGA). The order required these companies to file an application for certificate authorization under NGA section 7 and Part 157 of the Commission's regulations to operate their system, consistent with Order No. 636. 7/ These companies 8/ and the Kansas Corporation Commission (KCC) filed timely requests for rehearing of that order.

6/ Id. at 61,923.

7/ Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation; and Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol, 57 Fed. Reg. 13,267 (Apr. 16, 1992), III FERC Stats. & Regs. Preambles ¶ 30,939 (Apr. 8, 1992); order on reh'g, Order No. 636-A, 57 Fed. Reg. 36,128 (Aug. 12, 1992), III FERC Stats. & Regs. Preambles ¶ 30,950 (Aug. 3, 1992); order on reh'g, Order No. 636-B, 57 Fed. Reg. 57,911 (Dec. 8, 1992), 61 FERC ¶ 61,272 (Nov. 27, 1992); reh'g denied, 62 FERC ¶ 61,007 (1993); United Distribution Companies, et al. v. FERC, 88 F.3d 1105 (D.C. Cir. 1996), cert. denied, 117 S.Ct. 1723 (1997).

8/ The request for rehearing was filed under the names of Kansas Pipeline Partnership, KansOk, and Riverside. However, since these companies subsequently indicated that the certificate in this proceeding should be issued under the name of Kansas Pipeline Company, the Commission is referring to them collectively by that name, or as applicant.

A description of the subject facilities can be found in the November 2 order. 9/ The system is operated on an integrated basis and traverses three states, bringing gas from gathering fields in Oklahoma into markets in the Kansas City metropolitan area in Kansas and Missouri. Also, KansOk interconnects with Transok, an unaffiliated intrastate pipeline, and leases firm capacity on Transok.

The November 2 order also describes prior Commission orders relating to the companies that would comprise Kansas Pipeline Company. 10/ Kansas Pipeline Company refers to three of these orders in its request for rehearing. They are: (1) Riverside's original NGA section 7(c) certificate order; 11/ (2) Kansas Pipeline Partnership's NGA section 7(c) blanket certificate order authorizing it to transport gas in interstate commerce as a Hinshaw pipeline under section 284.224(b) of the Commission's regulations; 12/ and (3) Riverside's Order No. 636 restructuring order. 13/

The November 2, 1995 order consolidated the show cause and complaint proceedings, and found that the subject natural gas pipeline system constituted an interstate pipeline system subject to the Commission's jurisdiction under the NGA.

On December 8, 1995, the Commission issued an order staying the effectiveness of its November 2 order until 60 days after the issuance of an order on the merits of the requests for rehearing. 14/ The order also clarified that in the interim, Riverside, Kansas Pipeline Partnership, and KansOk may continue to provide the services, collect the rates on file with and approved by the Commission and the KCC, and undertake all other activities authorized by the Commission and the KCC.

9/ KansOk Partnership, et al., 73 FERC ¶ 61,160, at 61,480-81 (1995).

10/ Id. at 61,481.

11/ See Riverside Pipeline Co., L.P., 48 FERC ¶ 61,309 (1989).

12/ Kansas Pipeline Company, 49 FERC ¶ 61,235 (1989).

13/ Riverside Pipeline Company, 63 FERC ¶ 61,282 (1993).

14/ KansOk Partnership, et al. 73 FERC ¶ 61,293 (1995).

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On January 23, 1996, Kansas Pipeline Company filed, under protest, an application for a certificate of public convenience and necessity, pursuant to section 7(c) of the NGA, to operate the facilities found to be jurisdictional by the November 2 order. 15/ The application was amended on February 18, 1997.

On June 5, 1996, the Commission issued a further clarification of the KCC's authority during the stay. 16/ Subsequently, the KCC and Williams Natural Gas Company (Williams) filed motions requesting that the stay be lifted.

II. Issues on Rehearing

On rehearing, Kansas Pipeline Company puts forth various arguments challenging the Commission's finding that it is an interstate pipeline. The KCC chronicles its ten years of regulating Kansas Pipeline Partnership as an intrastate pipeline, and requests clarification of the effect of the Commission's November 2 order on on-going proceedings before it regarding Kansas Pipeline Partnership, and on other intrastate pipelines within Kansas. The KCC also requests a technical conference. The arguments put forth on rehearing and the Commission's response to them are discussed below.

A. NGPA Section 311 And The NGA

Kansas Pipeline Company's first line of argument is that a finding of federal jurisdiction violates express statutory and regulatory assurances that interstate transportation by intrastate pipelines under NGPA section 311 and Hinshaw pipelines under a Part 284.224 certificate cannot subject those companies to comprehensive NGA jurisdiction. Kansas Pipeline Company argues that intrastate pipelines and Hinshaw pipelines are authorized by the NGA, the NGPA, and the Commission's regulations to provide exactly the type of sales, transportation, and construction performed by the individual companies here, without NGA jurisdictional consequences.

This argument begs the very question under consideration, however, namely, whether or not Kansas Pipeline Company qualifies in the first instance for the exemptions from NGA regulation that apply to Hinshaw or intrastate pipelines. For the reasons set forth in our November 2 order and discussed further here, we do not believe that Kansas Pipeline Company continues to qualify for these exemptions because of the material changes that have occurred as its system has evolved. Any other result would

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15/ Supra, n. 1.

16/ KansOk Partnership, et al., 75 FERC ¶ 61,264 (1996).

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elevate form over substance, undermine the authority of the Commission to regulate interstate transactions under the NGA, and expand the exemptions contained in NGA § 1(c) and NGPA §§ 311 and 601 beyond any reasonable interpretation of those provisions.

In support of its claim that the November 2 order departs from governing law, regulations, and precedent, Kansas Pipeline Company cites the following:

> The Commission is of the view that the provisions of Title VI of the NGPA exempt from the Commission's NGA jurisdiction all of the natural gas, facilities, operations, and entities that [petitioner] has placed at issue here ... To reach jurisdictional conclusions different from those set out above would prevent pipelines from engaging in such transactions, thereby frustrating Congress' purpose of integrating the interstate and intrastate markets. 17/

Kansas Pipeline Company contends that the November 2 order is a departure from the above application of the NGPA and the Commission's regulations, and that rather than justify this departure, the order pretends there is none. Kansas Pipeline Company states that the Commission's pronouncement that the regulatory background in which its earlier decisions were issued has changed significantly is not a legitimate basis for disregarding governing law. As such, Kansas Pipeline Company contends that the November 2 order does not show reasoned decision making.

Contrary to Kansas Pipeline Company's assertions, the November 2 order does not change policy, nor does it lack reasoned decision making. Rather, the order explains that the "language, ... history and ... purpose" of NGPA section 311 "show that the section is a limited exception to the requirements of [NGA] § 7, and was never intended to work a sweeping change in the requirement that gas transportation be authorized by a certificate issued prior to the transportation." 18/ As the order explains, Kansas Pipeline Company's system was put together

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17/ Texas Utilities Fuel Co., 44 FERC ¶ 61,171 at 61,569 (1988); see also Mustang Energy Corp. v. FERC, 859 F.2d 1447, 1450-51 (10th Cir. 1988); Seagull Shoreline system, 23 FERC ¶ 61,117 at 61,273 (1983); Westar Transmission Co., 43 FERC ¶ 61,050 (1988); Alabama-Tennessee Natural Gas Co., 69 FERC ¶ 61,246 (1994).

18/ Id., citing Associated Gas Distributors v. FERC, 899 F.2d 1250, 1261 (1990).

piecemeal, over time, and the structure of transactions and corporate relationships developed by *Kansas Pipeline Company* is materially different today from those that existed when Riverside was first certificated and when Kansas Pipeline Partnership received its blanket certificate. 19/

Today, Kansas Pipeline Company's system traverses three states, providing interstate transportation. Yet, according to *Kansas Pipeline Company*, only Riverside's border crossing facilities should be fully subject to NGA section 7 regulation. As the November 2 order explains, if the Commission were to condone this arrangement, "it would seem that anyone could build a chain of "intrastate" pipelines from Maine to California, with only the few feet straddling *state borders* subject to NGA regulation." Such a result would not be consistent with the comprehensive scheme of federal regulation contemplated by the NGA, or with the court's interpretation in AGD that NGPA section 311 was not intended to work a "sweeping change" in the regulatory landscape.

B. Prior Commission Orders

In its response to our show cause order, Kansas Pipeline Company cited three prior Commission orders where the Commission considered and rejected arguments that the companies should be *subject to federal* jurisdiction. 20/ It contended that, under principles of res judicata and collateral estoppel, the Commission was barred from revisiting the jurisdictional status of the companies.

In response to *these arguments*, the November 2 order stated that the prior orders did not govern the outcome of this proceeding. The order explained that the Commission was not applying the doctrines of res judicata and collateral *estoppel* here because the jurisdictional consequences of constructing segments of Riverside at the *Kansas-Oklahoma* border to unite a multi-state system were never considered in the earlier proceedings. 21/

19/ KansOk Partnership, et al., 73 FERC ¶ 61,160, at 61,487 (1995).

20/ Riverside Pipeline Co., L.P., 48 FERC ¶ 61,309 (1989); *Kansas* Pipeline Company, 49 FERC ¶ 61,235 (1989); and Riverside Pipeline Company, 63 FERC ¶ 61,282 (1993).

21/ KansOk Partnership, et al., 73 *FERC* ¶ 61,160, at 61,487 (1995).

On rehearing, Kansas Pipeline Company restates its earlier arguments, and contends that the Commission's ruling is particularly egregious with respect to Kansas *Pipeline* Partnership. Kansas Pipeline Company states that Kansas Pipeline *Partnership operated* as a Hinshaw pipeline certificated by the KCC for four years prior to performing its Part 284 service under the Commission's limited jurisdiction blanket certificate pursuant to Order No. 63. The Commission's order granting the limited jurisdiction blanket certificate specifically stated:

> Once Kansas Pipeline [Partnership] has authorization to transport natural gas under this certificate, it may deliver gas to Riverside, an interstate pipeline, regardless of where the natural gas ultimately will be consumed and its Hinshaw *status will not be jeopardized* by such transactions. 22/

Also, in support of its argument, Kansas Pipeline Company cites section 284.224(d) of the Commission's regulations, which provides that acceptance of such certificate will *not subject the* certificate holder to the Commission's NGA jurisdiction, except *to the extent necessary* to enforce the terms and conditions of the certificate. Kansas Pipeline Company contends that the November 2 order amounts to regulatory entrapment, because Kansas Pipeline Partnership is being found to be jurisdictional for performing the very services its blanket certificate guaranteed it could *perform without becoming* jurisdictional. Moreover, since the terms of its certificate required it to transport gas *on an open-access* basis, it had no choice but to transport gas for Riverside.

Further, Kansas *Pipeline Company argues* that Kansas Pipeline Partnership should not be penalized by losing its Hinshaw status because of the business decisions of Riverside and KansOk. Specifically, it argues that Kansas Pipeline *Partnership should* not be penalized because Riverside chose to construct its Kansas-Oklahoma border crossings *pursuant to NGPA section* 311 rather than NGA section 7(c). Nor should Kansas Pipeline Partnership be penalized because of the small amount of intrastate service provided by KansOk.

The provisions for "limited jurisdiction" *contained in* Kansas Pipeline Partnership's blanket certificate applied only to activities within the scope of that certificate. As stated, Kansas Pipeline Company's system has changed materially since the issuance of its blanket certificate. While Kansas Pipeline Company complains that Kansas Pipeline Partnership *is being* penalized for the business decisions of Riverside and KansOk, the *fact is* that all three companies have common ownership and are

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22/ Kansas Pipeline *Company*, 49 *FERC* ¶ 61,235, at 61,836 (1989).

...ted on an integrated basis as one pipeline. The argument that it is unfair to find that Kansas Pipeline Partnership no longer qualifies for Hinshaw status as a result of the business decisions of Riverside and KansOk would require us to ignore that the same individuals are involved in the operation and ownership of all three companies, out of the same building. We reject the position that because the Commission issued a limited jurisdiction certificate, it is constrained from recognizing subsequent developments that are inconsistent with the public interest considerations underlying the certificate. Likewise, we decline to adopt an excessively legalistic approach by focusing narrowly on the activities of individual affiliates and ignoring the reality that these activities are not solely of local concern and have nothing to do with integrating the intrastate market with the interstate grid.

C. Comparison With Other Hinshaw Pipelines

Kansas Pipeline Company argues that the November 2 order is unlawful because it is arbitrary and capricious, particularly with respect to its finding of jurisdiction over Kansas Pipeline Partnership. Kansas Pipeline Company contends that the interstate transportation performed by Kansas Pipeline Partnership pursuant to its section 284.224 blanket certificate is indistinguishable from that performed by other Hinshaw pipelines. Specifically, Kansas Pipeline Company cites Pacific Gas and Electric Company 23/ and Boston Gas Company 24/ in support of its argument that the Commission has previously authorized Hinshaw pipelines to transport gas in interstate commerce under a section 284.224 blanket certificate for delivery in several states. Kansas Pipeline Company also points out that in several instances, the Hinshaw pipeline was an affiliate of one of the interstate pipelines to which it was connected. 25/

The difference between the cases cited and the instant case lies in the underlying organizational structure of Kansas Pipeline Company's system. Here, the three companies are all

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23/ Pacific Gas and Electric Company, 67 FERC ¶ 61,355 (1994), reh'g denied 69 FERC ¶ 61,140 (1994).

24/ Boston Gas Company, 70 FERC ¶ 61,121 (1995).

25/ See, e.g. Commonwealth Gas Pipeline Corp., 49 FERC ¶ 61,039 (1989) (affiliated with Columbia Gas Transmission Corp.); Creole Gas Pipeline Corp., 30 FERC ¶ 62,290 (1985) (affiliated with Tennessee Gas Pipeline); Empire State Pipeline, 70 FERC ¶ 61,162 (1995) (affiliated with Great Lakes Gas Transmission L.P.); Pacific Gas and Electric Company, 67 FERC ¶ 61,355 (1994) (affiliated with Pacific Gas Transmission Company).

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affiliated and are operated as one system. Kansas Pipeline Company has set up its system so that the "interstate" portion of its system consists only of two-mile border crossings, despite the fact that the entire system is more than 1,000 miles long and was originally one interstate oil pipeline. Only the Kansas-Missouri border crossing was certificated under NGA section 7(c); the two Kansas-Oklahoma border crossings connecting the system with its KansOk affiliate were accomplished under NGPA section 311. In this case, the organizational structure elevates form over substance, with the result of submitting a de minimis part of the system to federal regulation while avoiding federal regulation over more than 99 percent of Kansas Pipeline Company's multi-state system.

D. Consistency With Order No. 636

The November 2 order noted that under Order No. 636, virtually all interstate pipelines operate under uniform requirements to form an interstate grid, and that it would be contrary to the goals of that program to allow some pipelines that perform interstate transportation to balkanize into a chain of affiliates subject to the regulations of various states. 26/

On rehearing, Kansas Pipeline Company argues that preventing frustration of Order No. 636 is not a valid basis for asserting jurisdiction here and that the express terms of the NGPA must take precedence over the Commission's concerns that Order No. 636 will be frustrated. In support, Kansas Pipeline Company states that: (1) lack of uniformity is irrelevant because regulatory differences are inherent between interstate and intrastate markets; (2) if the Commission wished to apply Order No. 636 to NGPA section 311 or Hinshaw blanket service, it should have done so by rulemaking; (3) Order No. 636 should not be applied retroactively to the detriment of the companies that relied on Commission rules as they existed before the policy change; and

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26/ KansOk Partnership, et al., 73 FERC ¶ 61,160, at 61,484-85 (1995). As that order stated, this would potentially penalize those pipelines and their customers who operate subject to Order No. 636 provisions. Further, such an interpretation would create a strong incentive for interstate pipelines to construct a second tier grid owned by affiliates, in order to provide interstate service under a different regulatory framework. It would allow pipelines to establish separate corporate entities that would effectively deny consumers the protections and benefits of Order No. 636. For these reasons, the November 2 order found that the public interest required the Commission to treat Kansas Pipeline Company as a single entity subject to the Commission's NGA jurisdiction.

(4) there is no basis for asserting that customers served by Kansas Pipeline Partnership are disadvantaged by the inapplicability of Order No. 636 regulatory safeguards.

We are not persuaded by this line of reasoning. It should come as no surprise that we are not receptive to an interpretation of NGPA section 311 that is so at odds with the policies of Order No. 636, which has been sustained by the court. 27/ Such considerations are perfectly valid in resolving questions pertaining to the application of our implementing regulations.

Nor is there any requirement that such proceedings must proceed by rulemaking. The Commission frequently interprets its regulations by applying them to the facts of specific cases, as we have done here.

Kansas Pipeline Company's argument that its customers are not interested in the unbundling of Kansas Pipeline Partnership's sales service, or in a capacity release program is similarly misplaced. The provisions of Order No. 636 and the protections it embodies are national in scope, and its application does not turn on a particular pipeline's view of what its customers want or need.

Nor are we persuaded by the argument that Order No. 636 should not be applied to Kansas Pipeline Company's system because it was promulgated after Kansas Pipeline Partnership, Riverside, and KansOk were placed in service. The Commission applied Order No. 636 to virtually all interstate pipelines in the United States, the vast majority of which were placed in service prior to implementation of the rule. Since Order No. 636 applies to all interstate pipelines, and not just new interstate pipelines, it applies to Kansas Pipeline Company's system as well.

Finally, we do not concede that the November 2 order applies the provisions of Order No. 636 to intrastate pipelines acting under NGPA Section 311 or to pipelines subject to the Hinshaw exemption of the NGA. To the contrary, the order finds that

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27/ Kansas Pipeline Company's interpretation of NGPA section 311 would permit a company to receive NGA section 7 authorization for its first border crossing facility, as was done by Riverside, and to then proceed to build a succession of intrastate pipelines connected by additional border crossing facilities built under NGPA section 311. Thus, a pipeline could span the United States with a string of affiliated intrastate/Hinshaw pipelines connected by interstate border crossing facilities, all owned and operated by the same individuals under yet another affiliated operating company.

Kansas Pipeline Company does not qualify for treatment as an intrastate or Hinshaw pipeline. The order applies the principle articulated by the court in AGD, that the language, history, and purpose of NGPA section 311 show that the section is a limited exception to the requirements of NGA section 7, and was never intended to work a sweeping change in the NGA section 7 regulatory framework. 28/

E. The Corporate Form

The November 2 order found that the public interest required the Commission to disregard the separate corporate status of the pipelines and treat Kansas Pipeline Company as a single entity subject to the Commission's NGA jurisdiction. 29/ In so doing, the order stated that recognizing the separate corporate structures of the companies would frustrate the goals of Order No. 636. 30/

On rehearing, Kansas Pipeline Company argues that the Commission cannot disregard corporate distinction in order to do indirectly what it cannot do directly. It claims that the decisions relied upon by the Commission for its authority to disregard the corporate form permit agencies to do so only if the statutory purpose would otherwise be frustrated. Kansas Pipeline Company states that the order claims that Order No. 636, not the statute, would be frustrated absent a disregarding of the corporate forms.

Kansas Pipeline Company also states that this is not a case of a major interstate pipeline creating intrastate affiliates in order to avoid NGA regulation. Rather, it involves a Hinshaw pipeline responding to the need of its principal local distribution company (LDC) customer based on Commission orders, rules and precedent. Kansas Pipeline Company explains the

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28/ Id., citing Associated Gas Distributors v. FERC, 899 F.2d 1250, 1261 (1990).

29/ See KansOk Partnership, et al., 73 FERC ¶ 61,160, at n. 26 (1995), citing Northwest Pipeline Corporation, et al., 59 FERC ¶ 61,115 (1992); Opinion No. 255, Town of Highlands, N.C. v. Nantahala Power & Light Company, 37 FERC ¶ 61,149 (1986); Town of Brookline v. Gorsuch, 667 F.2d 215 (1st Cir. 1981); Capital Telephone Co., Inc. v. FCC, 498 F.2d 734 (D.C. Cir. 1974).

30/ KansOk Partnership, et al., 73 FERC ¶ 61,160, at 61,484-85 (1995).

evolution of its system as follows. 31/ Kansas Pipeline Partnership began as an intrastate pipeline serving primarily two LDCs (Western Resources and MGE's predecessor, KPL Gas Service) in Kansas City, Kansas. In time, it became important for the LDCs to move gas to their customers on the Missouri side of the Kansas City metropolitan area. Riverside was constructed and Kansas Pipeline Partnership obtained its section 284.224 blanket certificate in order to provide service to the Missouri customers. In time, the LDCs desired to have access to lower priced gas supplies in Oklahoma. In response to this need, the Kansas-Oklahoma border crossing was constructed by Riverside connecting the system to KansOk. KansOk then leased capacity on Transok, which Riverside could not do without jeopardizing Transok's status as an intrastate pipeline in Oklahoma. 32/ Therefore, Riverside's NGPA section 311 construction of the Kansas-Oklahoma border crossings and the service provided by KansOk as an intrastate pipeline were consistent with the NGA and NGPA, but were outside the reach of the Commission's NGA jurisdiction.

The Commission sees it differently. Contrary to Kansas Pipeline Company's assertions, this is exactly the case of a major interstate pipeline creating intrastate affiliates in order to avoid NGA regulation. It bears repeating that Kansas Pipeline Partnership, KansOk, and Riverside's Kansas-Oklahoma border crossings were initially constructed as one interstate oil pipeline. When Kansas Pipeline Partnership was formed as an intrastate pipeline, the Kansas-Oklahoma border crossings were physically blocked off for the sole purpose of enabling Kansas Pipeline Partnership to qualify as an intrastate pipeline. Thus, when Riverside "constructed" the Kansas-Oklahoma border crossings under NGPA section 311, all it actually did was remove the blockage that it had put in place earlier. The portion of the pipeline in Oklahoma was then characterized as an intrastate pipeline, even though more than 97 percent of its business was interstate.

Kansas Pipeline Partnership, KansOk, and Riverside all have common ownership and are operated on an integrated basis as one pipeline, even though on paper they claim to be an intrastate, a Hinshaw, and one interstate consisting only of border crossings. The claim of Kansas Pipeline Company, that it is not an

31/ See Kansas Pipeline Company's request for rehearing at 42-44.

32/ See Tennessee Gas Pipeline Co., 70 FERC ¶ 61,244 (1995).

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interstate pipeline seeking to avoid NGA regulation by creating affiliates is implausible, especially in light of the fact that the pipeline in the ground was previously designated as an interstate system, before these corporate forms were established.

The Commission agrees that it cannot disregard the corporate form unless to do otherwise would frustrate the statutory purpose. However, the Commission furthers the purposes of the NGA through its implementing regulations, in this case Order No. 636. As we have explained above, the consumer protection goals of Order No. 636 are frustrated if companies may so easily avoid its provisions by segmenting interstate transactions through a chain of corporate affiliates. Frustration of Order No. 636 is, a priori, frustration of the statutory purpose of the NGA. 33/

F. Legal Authority To Modify Kansas Pipeline Partnership's Blanket Certificate

Kansas Pipeline Company states that when the Commission issued Kansas Pipeline Partnership its section 284.221 blanket certificate, one of the essential terms of that certificate was that Kansas Pipeline Partnership would be authorized to transport gas in interstate commerce without jeopardizing its Hinshaw status or subjecting itself to full NGA jurisdiction. In reliance on that assurance, Kansas Pipeline Partnership accepted the certificate and began to transport gas in interstate commerce in Part 284 transactions.

Kansas Pipeline Company states that now, contrary to the terms of that certificate, the November 2 order declares that Kansas Pipeline Partnership's interstate transportation of gas under Part 284 is part of a multi-state transaction, grounded in the interstate grid, which subjects Kansas Pipeline Partnership to the Commission's NGA jurisdiction as an interstate pipeline. Kansas Pipeline Company states that, in effect, this ruling amounted to a revocation of Kansas Pipeline Partnership's blanket certificate.

Kansas Pipeline Company argues that the Commission has no authority under NGA section 7 to modify the terms of an existing certificate issued in a proceeding other than the one which is before it. 34/ Also, although the November 2 order does not state that the Commission was acting under NGA section 5, Kansas

33/ See generally FPC v. Hope Natural Gas Company, 320 U.S. 591, 610 (1944); Order No. 636, III FERC Stats. & Regs., Regulations Preambles, ¶ 30,939, at 30,392-98 (1992).

34/ See United States v. Seatrain Lines, Inc., 329 U.S. 424 (1947).

Pipeline Company contends that the Commission would not have the authority to change Kansas Pipeline Partnership's existing certificate under section 5 either.

The argument of Kansas Pipeline Company on this point is not sustainable. First, we note that our May 31 show cause order in this proceeding stated that the Commission was acting under sections 5, 7 and 16 of the NGA. 35/ Section 16 of the NGA states, in part:

> The Commission shall have power to perform any and all acts, and to prescribe, issue, make, amend, and rescind such orders, rules, and regulations as it may find necessary or appropriate to carry out the provisions of this act. [Emphasis added.]

The above provisions of the NGA provide the Commission with ample legal authority to enforce the NGA in this proceeding and, in particular, to make the determination that the system of Kansas Pipeline Company constitutes an interstate pipeline requiring NGA section 7 authorization in order to operate. Claims by Kansas Pipeline Partnership that it relied on its blanket certificate as a Hinshaw pipeline are unavailing here. The argument ignores the fact that the blanket certificate was issued in 1989, well before Kansas Pipeline Partnership merged with Kansas Natural, before Riverside constructed its Kansas/Oklahoma border crossings, and before the entire system linked up with KansOk to move gas through three states. Moreover, even if a case for reliance could be made, the fact remains that the blanket certificate issued under § 284.224 only authorized activities within the prescribed scope of the certificate. It did not authorize Kansas Pipeline Partnership and its affiliates to operate together as an interstate pipeline free from NGA regulation.

G. Pipeline Gathering Affiliates

On rehearing, Kansas Pipeline Company reiterates its argument that it is inconsistent for the Commission to expand its jurisdiction over Kansas Pipeline Partnership and KansOk here, while not regulating rates or services of gas gathering companies, even where they are affiliated with interstate pipelines. 36/ Kansas Pipeline Company states that, with respect to gathering, the Commission has recognized that it has no jurisdiction over gathering because of NGA section 1(b), and so

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35/ KansOk Partnership, et al., 71 FERC ¶ 61,242, at 61,919 (1995).

36/ KansOk Partnership, et al., 73 FERC ¶ 61,160, at 61,483-84 (1995).

it does not seek to regulate rates or services of gas gathering companies, even when they are connected to, and provide service in interstate commerce in conjunction with affiliated interstate pipelines. 37/ Kansas Pipeline Company argues that this same reasoning should apply to Kansas Pipeline Partnership and KansOk, because, while their service is not gathering, they are equally nonjurisdictional under the NGA because of the express terms of NGA sections 1(b) and 1(c) and NGPA section 601.

Kansas Pipeline Company's argument assumes that the Commission's decision here is an expansion of its jurisdiction over nonjurisdictional facilities. This is not correct. The Commission is not expanding its jurisdiction here over nonjurisdictional intrastates and Hinshaws, as Kansas Pipeline Company suggests, but rather, is asserting jurisdiction over a pipeline that despite its corporate structure, is operating as an interstate system.

H. Alternatives To Federal Jurisdiction

Kansas Pipeline Company argues that the Commission erred by not considering alternatives to the immediate assertion of jurisdiction over Kansas Pipeline Company. It states that the Commission should have announced its new policies and given the companies time to restructure their operations. For example, if given time, KansOk and/or Riverside's Oklahoma facilities could be sold to an unaffiliated company to restore Kansas Pipeline Partnership and Riverside to their status at the time of the 1989 orders certificating Riverside and granting Kansas Pipeline Partnership its blanket certificate. Kansas Pipeline Company states that, on rehearing, the Commission should clarify that those options still exist as a means of avoiding NGA jurisdiction over Kansas Pipeline Partnership.

Our November 2 order addressed the issues raised in this proceeding. There was no error in failing to consider an alternative proposed now for the first time by Kansas Pipeline Company. If Kansas Pipeline Company has a concrete proposal for restructuring its system, nothing in our orders prevents it from putting forth such a proposal. However, we will not delay the processing of this case on the basis of hypothetical or speculative solutions.

37/ See, e.g. Arkla Gathering Services Co., 67 FERC ¶ 61,257 (1994), reh'g 69 FERC ¶ 61,280 (1994), reh'g denied, 70 FERC ¶ 61,079 (1995); NorAm Gas Transmission Co., 70 FERC ¶ 61,018 (1995); Williams Natural Gas Co., 71 FERC ¶ 61,115 (1995); Panhandle Eastern Pipe Line., 71 FERC ¶ 61,201 (1995).

I. KCC's Request For Rehearing, Clarification And Technical Conference

In its request for rehearing, the KCC states that it has regulated Kansas Pipeline Partnership since 1985. It notes that what is now Kansas Pipeline Partnership began as two intrastate pipelines -- Kansas Pipeline Partnership and Kansas Natural Partnership. 38/ The KCC states that it approved the merger of these companies after due consideration and based on the record and application in the merger case. The KCC states that it has also regulated Kansas Pipeline Partnership's rates, consistent with applicable state statutes. It states that in its substantive orders regulating Kansas Pipeline Partnership, it has concluded that competition in the natural gas market is desirable and will ultimately lead to more benefits for ratepayers. The KCC also notes that Kansas Pipeline Partnership's current rates are based on the straight fixed variable rate design.

The KCC states that under NGA section 1, the KCC has the authority to regulate Kansas Pipeline as an intrastate pipeline. The KCC states that it is uniquely situated to assess the pipelines in Kansas and to set policy for the benefit of ratepayers therein, and has a strong history of doing so. The KCC states that the Commission's November 2 order raises serious questions of state/federal jurisdiction. The KCC asks that the Commission convene a technical conference to afford the KCC the opportunity to pursue further the impact of the November 2 order. In addition, the KCC requests clarification with respect to the impact that the November 2 order will have on other pipelines regulated by the KCC.

The Commission clarifies that its November 2 order should not affect other pipelines regulated by the KCC, since the order applies only to Kansas Pipeline Company's system. As to the KCC's request for rehearing, the Commission recognizes that the KCC has regulated Kansas Pipeline Partnership for the past eleven years, and that the November 2 order will shift that regulation from the state to the federal level. However, given the facts and circumstances surrounding this case, the Commission believes that Kansas Pipeline Partnership should be regulated at the federal level, since, as discussed herein, it is part of an interstate system. Accordingly, the KCC's request for rehearing of the November 2 order is denied. As to the request for a technical conference, technical conferences were held in this case, as discussed below.

38/ Kansas Natural Partnership was the successor to Phenix Transmission Company.

III. Proposal

A. Proposed Corporate Structure

Under protest, Kansas Pipeline Company proposes to operate the Riverside/Kansas Pipeline Partnership/KansOk system as an interstate pipeline. The proposal is that Kansas Pipeline Company would be formed as a partnership to hold the instant certificate and operate the pipeline systems on a consolidated basis under a single tariff. The partners of Kansas Pipeline Company would be Syenergy Pipeline Company, L.P. (Syenergy) and Bishop Pipeline Company, which would own 99.901 percent and 0.099, respectively. Syenergy's partners are now Bishop Pipeline Company and Bishop Gas Transmission Company. 39/ Kansas Pipeline Company would acquire 99.999 percent of the partnership interests of Kansas Pipeline Partnership and KansOk and 99.9995 percent of Riverside. Bishop Pipeline Company would own the remaining interests. However, the pipeline assets themselves would continue to be held by Riverside, Kansas Pipeline Partnership and KansOk, until the jurisdictional issues involved in this case are no longer subject to judicial review.

B. Proposed Services

Specifically, Kansas Pipeline Company proposes that: (1) all sales and transportation services currently provided by Kansas Pipeline Partnership and KansOk subject to state jurisdiction be abandoned; (2) all transportation contracts currently held by Kansas Pipeline Partnership, Riverside, and KansOk be assigned to Kansas Pipeline Company; (3) all gas supply contracts held by Kansas Pipeline Partnership and KansOk be assigned to Kansas Pipeline Company or terminated; 40/ (4) all pipeline and related facilities currently held by Kansas Pipeline Partnership, Riverside, and KansOk be acquired by Kansas Pipeline Company; and (5) Kansas Pipeline Company be authorized to commence unbundled service to replace the service previously provided by Kansas Pipeline Partnership, KansOk, and Riverside, all in accordance with Kansas Pipeline Company's proposed tariff and Order No. 636.

No new construction is proposed herein. Kansas Pipeline Company proposes that Kansas Pipeline Partnership's existing sales services be unbundled in compliance with Order No. 636. Kansas Pipeline Company proposes to offer an equivalent level of transportation capacity to such customers. Kansas Pipeline Company proposes that small customers be allowed to elect to

39/ See the applicant's letter dated September 17, 1997.

40/ Riverside states that only those gas supply arrangements needed to support a small customer sales service would be retained.

continue to purchase gas at a cost-based rate for a one-year period under proposed Rate Schedule SCS. Kansas Pipeline Company also proposes to offer firm and interruptible sales on an unbundled basis at negotiated rates under proposed Rate Schedule PS, with transportation provided under proposed Rate Schedule IT, except to the extent the shipper holds existing capacity under proposed Rate Schedule FT. Kansas Pipeline Company states that firm capacity is fully subscribed by existing customers. Kansas Pipeline Company requests that its proposal become effective within 60 days of the Commission's order herein.

Kansas Pipeline Company states that Kansas Pipeline Partnership will file an application to abandon all services and facilities subject to KCC jurisdiction prior to the effective date of our jurisdiction, in compliance with the requirements of Kansas law. 41/

C. Requested Authorizations

Kansas Pipeline Company requests: (1) a blanket certificate authorizing unbundled firm and interruptible sales service pursuant to Part 284, Subpart J of the Commission's regulations; and (2) a blanket certificate authorizing certain construction and operation of facilities, sales arrangements, certificate amendments, and abandonments pursuant to Part 157, Subpart F of the Commission's regulations.

D. Proposed Treatment of Existing Transok Lease

There currently exists a long-term capacity lease between KansOk and Transok, Inc. (Transok), that operates in the State of Oklahoma, whereby KansOk's existing customers can use capacity on Transok as if it were an extension of KansOk's system. 42/ Kansas Pipeline Company proposes to retain the Transok Lease for use as an extension of its pipeline system if to do so will not

41/ Kansas Pipeline Company states that it needs to seek abandonment authority from Kansas for facilities operated by Kansas Pipeline Partnership. Nevertheless, the Commission's show cause order found that the subject facilities were functioning as a single interstate pipeline and directed that an application for the certificate authority to operate the system be filed.

42/ See KansOk/Transok Lease, dated April 24, 1992, including all exhibits and amendments. This lease was filed in Docket No. PR94-3-000 on a confidential basis pursuant to § 388.112.

subject Transok to NGA jurisdiction. 43/ Kansas Pipeline Company proposes that all shippers transporting gas under Rate Schedules FT, SCT, and IT be able to utilize capacity rights to be held by Kansas Pipeline Company, subject to the terms and conditions of the lease. Kansas Pipeline Company proposes that firm customers have priority in the use of leased capacity, as set forth in the proposed General Terms and Conditions of Kansas Pipeline Company's FERC Gas Tariff, Exhibit P.

Kansas Pipeline Company proposes that, in the event the Commission does not authorize it to hold leased capacity on Transok, or determines that it may not hold such capacity without subjecting Transok to the Commission's NGA jurisdiction, all rights and obligations under the Transok Lease be assigned to the following customers and in the following quantities:

Western Resources	46,107 MMBtu/day
Missouri Gas Energy	43,893 MMBtu/day

In that event, Kansas Pipeline Company states that Western Resources and MGE would be bound by the terms of the Transok Lease, and KansOk would be released from all existing obligations. If Western Resources and MGE refuse to accept assignment of the Transok Lease, Kansas Pipeline Company proposes that the costs of the lease or a buy out thereof be recoverable as a transition cost through direct billing to Western Resources and MGE.

E. Proposed Rates

Kansas Pipeline Company states that its proposed rates are based on a straight fixed-variable (SFV) rate design methodology and a cost of service reflecting the combined facilities of Riverside, Kansas Pipeline Partnership, and KansOk. Kansas Pipeline Company states that no mitigation measures are required since SFV rates were in effect on each of the pipelines prior to this proceeding. Kansas Pipeline Company states that expenses are based on the 12 months ended September 30, 1995, adjusted for known and measurable changes, and that costs have been allocated to customers using billing determinants which assume a continuation of customers' existing firm contractual commitments.

43/ Previously, the lease arrangement did not subject Transok, an intrastate pipeline in Oklahoma, to NGA jurisdiction because KansOk was classified as an Oklahoma intrastate. However, since KansOk is now part of an interstate system, there is concern as to whether the lease arrangement will subject Transok to NGA jurisdiction.

Kansas Pipeline Company proposes zone rates which, it states, generally reflect the rate and contract service structure of its entities that existed prior to the November 2 Order. The proposed transportation rates for firm (FT), interruptible (IT) and small customer (SCT) transportation service (exclusive of fuel, surcharges, and lost and unaccounted for gas) are set forth below:

	Zone 1	Zone 2	Zone 3
FT Reservation	$6.6817	$10.5405	$9.1499
FT Commodity	$0.0050	$0.0050	$0.0050
IT	$0.2247	$0.3515	$0.3058
SCT	$0.5542	$0.8714	$0.7571

The proposed rates for each zone are additive; shippers traversing all three zones would pay the sum of the rates stated for Zones 1, 2, and 3. Alternatively, if Kansas Pipeline Company does retain the existing leased capacity on Transok, it proposes the following rates:

	Zone 1	Zone 2	Zone 3
FT Reservation	$5.5315	$10.5405	$9.1499
FT Commodity	$0.0050	$0.0050	$0.0050
IT	$0.1869	$0.3515	$0.3058
SCT	$0.4597	$0.8714	$0.7571

Kansas Pipeline Company also proposes procedures to recover, as transition costs, all costs associated with complying with Order No. 636 and the Commission's November 2 Order. These costs include: (1) unrecovered purchased gas costs attributable to Kansas Pipeline Partnership's existing merchant function; (2) direct-bill costs previously authorized by the KCC; (3) expenses associated with reorganizing and consolidating the companies into a single entity; (4) costs of upgrading existing facilities to comply with Department of Transportation regulations applicable to interstate pipelines; (5) increased costs under the companies' debt instruments related to the change in regulatory status; (6) costs of reorganizing into a corporate form, if needed to maintain the tax allowances currently in rates; (7) buy out, buy down, contract reformation costs, and/or lost profits attributable to terminating Kansas Pipeline Partnership's merchant function; and (8) costs attributable to assigning or terminating KansOk's lease with Transok, Inc., if required. Kansas Pipeline Company proposes to make limited NGA § 4 filings to recover these costs.

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F. Proposed Tariff

Kansas Pipeline Company's filing includes a proposed FERC Gas Tariff, 44/ which Kansas Pipeline Company states is based on Panhandle Eastern Pipeline Company's (Panhandle) current tariff. Kansas Pipeline Company indicates that it has made several changes to reflect the differences between Panhandle's system and its own. Purportedly, these changes are made to reflect the fact that Panhandle has storage, whereas Kansas Pipeline Company would not, and that Panhandle has entered into various settlements with its customers. These changes include:

(1) removal of all storage-related rate schedules;
(2) reducing the daily balancing tolerance from 10 percent to 5 percent to recognize that Kansas Pipeline Company would have less system operating flexibility without storage; 45/
(3) increasing penalties from a sliding scale of $5, $10, and $15 in its own existing tariff, and $10 in Panhandle's tariff, to a straight $25 per dth for violation of operational orders during extreme conditions in order to deter non-compliance; 46/
(4) adding provisions relating to use of the Transok lease;
(5) removing provisions regarding the recovery of settlement transition cost surcharges, Canadian Resolution Surcharges, and other settlement-related surcharges; and
(6) adding sales rate schedules in its pro forma tariff, in the event customers opt to purchase gas from Kansas Pipeline Company.

IV. Interventions, Protests and Technical Conferences

Notice of Kansas Pipeline Company's application was published in the Federal Register on February 9, 1996 (61 Fed.

44/ The tariff included in the proposal was filed under the name of Riverside Pipeline Company. The applicant indicates that it intends to refile the tariff under the name of Kansas Pipeline Company, consistent with its February 18, 1997 pleading wherein it requested that the certificate be issued to Kansas Pipeline Company. See n. 1.

45/ Kansas Pipeline Company states that the Commission has approved 5 percent daily balancing tolerances even for pipelines with storage capability. See, e.g., Williams Natural Gas Co., 73 FERC ¶ 61,023 at 61,048 (1995).

46/ See Texas Eastern Transmission Corp., 63 FERC ¶ 61,100 at 61,489 (1993); ANR Pipeline Co., 64 FERC ¶ 61,140 at 62,072 (1993).

390). Timely motions to intervene were filed by the KCC, .ssouri Public Service Commission (Missouri PSC); Williams; lestern Resources; KN Interstate Gas Transmission Co.; NorAm ransmission Company; Colorado Interstate Gas Company; Enron .al & Trade Res. Corp.; Panhandle; Transok; United Cities Gas any; and Natural Gas Clearinghouse. 47/ Late motions to rvene were filed by Midwest Gas Users' Association and the .zens' Utility Ratepayer Board (CURB). Kansas Pipeline pany and the KCC oppose CURB's late intervention. The late erventions will not delay or disrupt the proceedings, nor judice any party. Therefore, for good cause shown, the late terventions are granted.

Protests were filed by the KCC, the Missouri PSC, Williams, estern Resources, MGE, and CURB. 48/ In addition, the KCC equested a technical conference and the applicant requested a public conference. A public conference was held on June 25, 1996, for the purpose of discussing the protested issues.

The KCC protests various provisions of the proposed tariff, rates, and transition costs. Specifically, the KCC protests the absence of an IT crediting mechanism, the lack of specificity regarding certain surcharges, excessive undefined overrun charges, provisions regarding automatic conversion to FT, daily imbalances, no credit for natural gas liquids, exit fee transition costs, former buyer's obligation for unrecovered purchased gas costs, stranded transportation costs, and the lack of rate neutrality resulting from the proposed rate zones.

The Missouri PSC states that 40 percent of the proposed cost of service is questionable. Specifically, the Missouri PSC protests the proposed inclusion in the cost of service of the market entry costs, acquisition premium costs, and other cost

47/ Timely, unopposed motions to intervene are granted by operation of Rule 214 of the Commission's Rules of Practice and Procedure.

48/ Also, two homeowners, William H. Maclaughlin, Jr., and Patricia L. and Gunnard L. Nelson, filed late letters of protest regarding the applicant's construction of facilities across their properties under NGPA section 311. These protests were incorrectly filed in Docket No. CP96-152-000. Since the construction these homeowners protest is in Docket No. CP96-746-000, their protests should have been filed in that proceeding. Accordingly, these protests are not addressed herein. In addition, Indicated Land Owners filed a late intervention, which it subsequently withdrew.

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components. 49/ The Missouri PSC protests certain depreciation and amortization expenses, regulatory commission expenses, debt expenses, prior loan fees, the proposed rate of return on equity, levelized interest provisions, and other cost components. The Missouri PSC protests the applicant's proposed transition costs. The Missouri PSC states that most of the items the applicant proposes to include in its transition costs are not eligible for such inclusion. The Missouri PSC protests the applicant's proposed date for commencing collection of carrying charges on its transition costs, and also the proposal that transition costs be collected only from the FT customers. It also protests the proposal regarding the Transok lease, the proposed allocation of costs to the rate schedules, the proposed contract demand determinants, and other matters.

Williams protests: (1) the proposal to direct bill the local distribution companies, MGE and Western Resources, for market entry and other similar "costs"; and (2) the request to include market entry and other costs in the rate base. Williams states that a level competitive playing field will not exist if Kansas Pipeline Company is allowed to cross-subsidize its service offerings in this fashion.

The applicant's largest customer, Western Resources, a local distribution company in Kansas that utilizes the applicant's system for firm transportation services, protests that the applicant's proposed pro forma tariff: (1) is not consistent with established regulatory policies, and, as such, is tantamount to a new rate case; (2) attempts to recover outside services costs as an O&M expense; (3) attempts to recover market entry costs that were disallowed by the Kansas Courts; (4) attempts to include depreciation expenses related to market entry and net debt expense and to write down depreciation expenses for regulatory commission expenses in one year; (5) attempts to recover certain unspecified transition costs through a surcharge that is inconsistent with Order No. 636; (6) attempts to direct bill Kansas Pipeline Partnership's customers the total unrecovered amounts remaining in Kansas Pipeline Partnership's Unrecovered Purchased Gas Account; (7) attempts to collect rates where the reservation charges are up to 20 percent more than the applicant's current rates at the state level; and (8) attempts to degrade Western Resources' service with onerous general terms and conditions in its pro forma tariff.

49/ The Missouri PSC also protests the inclusion of costs for the development of facilities pursuant to NGPA section 311 in Docket No. CP96-746-000. However, this portion of the protest is moot, since the contracts underlying the NGPA section 311 project were sold to another company and the applicant is no longer seeking to construct those facilities.

Further, Western Resources states that: (1) the applicant should be prohibited by FERC from entering into new long term gas purchase contracts pending the issuance of its FERC certificate; (2) the applicant should be required to demonstrate a reasonable level of interruptible volumes in its filing or provide IT revenue crediting to its firm customers; (3) the Commission should review discounts for IT service provided by the applicant to its marketing affiliates, MarGasCo and Mid-Kansas Partnership; (4) the Commission should review the applicant's provision of IT service to non-affiliates; (5) the Commission should set the appropriate rates for KansOk in Docket No. PR94-3-000 and require refunds to be paid; and (6) the Commission should reject the "settlement" which the applicant did not file, but submitted to the Commission for informational purposes only.

CURB states that the applicant should be required to provide support and justification for the proposed direct bills to the local distribution companies. CURB notes that state court review of certain prior KCC decisions regarding Kansas Pipeline Partnership's state rates may form the basis for further review of certain costs previously approved. Thus, CURB argues that FERC should not automatically accept as prudently incurred all of the costs proposed for inclusion in the cost of service.

Technical Conferences were held in this proceeding on June 25 and November 19, 1996 and February 6-7, 1997. During the last conference, the Commission staff requested that the applicant file certain documents and data pertaining to its proposal. Included was a request that Kansas Pipeline Company to supplement its application with a new set of pro forma tariff sheets that were to include the changes and corrections requested by Staff and the other parties. On February 18, 1997, Kansas Pipeline Company filed, along with other requested data, a new complete pro forma tariff which includes, in general, the requested changes. While this revised tariff resolves many of the concerns voiced by the parties and Staff, certain additional modifications to the tariff are required, as discussed below.

V. Discussion

Upon review, the Commission finds that Kansas Pipeline Company's application, as supplemented, is generally in compliance with the requirements of the Commission's November 2 order. Consistent with the findings and determinations of that order, the Commission finds that the public convenience and necessity require that Kansas Pipeline Company be operated as an interstate pipeline. Accordingly, the Commission is issuing the requested section 7(c) certificate and blanket certificate to authorize the interstate operation of the pipeline, and accepting the proposed tariff, as modified below.

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With respect to the proposed initial rates, the Commission finds that the proposed rate design and underlying billing determinants are appropriate and in the public interest. However, the Commission finds that various elements of the proposed $100,647,042 rate base and $36,708,843 cost of service are not consistent with the Commission's regulations and otherwise not in the public interest. These cost components include the proposed acquisition premium, market entry costs, project development costs, and related cost components. Accordingly, the Commission is removing those cost components from the cost of service and recalculating the initial rates. With the removal of these costs, the resulting rate base which the Commission is approving is $39,011,785 and the resulting cost of service is $21,817,483. The Commission has recalculated the initial rates, based on these figures.

A. Rate Base and Cost of Service

(1) Rate Base Adjustments

1. Acquisition Premium

Kansas Pipeline Company proposes to include in its rate base an acquisition premium of $13,347,716 and an associated depreciation expense in its cost of service of $323,264. The acquisition premium relates to amounts paid in excess of book value for various assets acquired and subsequently consolidated under several partnerships and management. The sale and resale of co-owned assets are convoluted and intertwined, and reflect significant affiliate involvement. 50/

In general, the Commission requires a utility to record the original cost of plant purchased for utility operations, along with the utility's accumulated depreciation. This is referred to

50/ The acquisition of assets took place over approximately 1 ½ years. The adjustment results from the purchase on October 11, 1989, of Phenix Transmission Company (Phenix) by Bishop Pipeline Company (Bishop). Subsequently, on June 22, 1990, Bishop sold one-half of its interest in the former Phenix to OKM Gas Pipeline, L.P. (OKM). Bishop assigned the other half of its interest in Phenix to Kansas Natural, Inc. Kansas Natural Inc. and OKM merged and formed Kansas Natural Partnership. On October 28, 1991, Kansas Natural, Inc.'s interest in Kansas Natural Pipeline was acquired by Bishop through a merger. OKM's interest in Kansas Natural Pipeline was acquired by Bishop and then transferred to Syenergy Pipeline Company, L.P. on October 30, 1991. Subsequently, Kansas Pipeline Company has had other mergers and consolidations equally complicated with affiliate interest leading to the current organizational setup.

as the original cost concept. 51/ The Commission requires any excess paid for facilities above their depreciated original cost to be recorded in Account 114, Gas Plant Acquisition Adjustments. Generally, amounts recorded in Account 114 are amortized below the line and both the amount recorded in Account 114 and the related amortization are excluded from rates. The Commission has, with limited exception, considered amounts in excess of the net book value to be an acquisition premium that should be absorbed by the shareholders. The original cost policy is an old and accepted concept of public utility regulation. 52/ The Commission has allowed exceptions to this rule but, only when the purchaser has demonstrated specific dollar benefits resulting directly from the sale. 53/ However, the benefits must be tangible, non-speculative, and quantifiable in monetary terms. The burden of proof for a utility seeking to demonstrate specific dollar amounts is heavy. 54/

Kansas Pipeline Company has provided no such demonstration. Instead, Kansas Pipeline Company relies upon the KCC's decision to allow the inclusion of these costs in the state regulated rates. Additionally, when asked in the technical conference to supply the basis of the acquisition premium, Kansas Pipeline Company merely provided its current records demonstrating the amount of the premium on its current books. Therefore, the record before us contains no evidence or showing of benefit to ratepayers, nor does it include the facts of the purchases.

The only evidence of the acquisition premium before the Commission is the KCC's order issued March 17, 1995. The order presents a basic discussion of the issues and the KCC's decision to allow the premium in rates. The KCC found the acquisition

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51/ See United Gas Pipeline Company, 25 FPC at 26 (1961).

52/ See Northern Natural Gas Company, 33 FERC ¶ 61,030 (1985).

53/ See Mid Louisiana Gas Co., 7 FERC ¶ 61,316 at 61,282 (1979), reh'g denied, 8 FERC ¶ 61,227 (1979).

54/ See Arkla Energy Resources, 61 FERC ¶ 61,004 (1992); reh'g denied 68 FERC ¶ 61,331 (1994); see also Baltimore Gas and Electric Co. (BGE) and Potomac Electric Power Company (PEPCO), 44 FPC at 1601 (1970). There, BG&E purchased a line from PEPCO in order to serve BG&E's existing customers better. BG&E demonstrated that it could not purchase a right of way other than PEPCO's and it was less expensive to buy an existing line to serve its present customers' contract demand requirements than it would have been to loop or build anew. The Commission allowed the premium inclusion in rates in light of extenuating circumstances where the utility showed calculated savings and benefits.

premium to be 40 percent greater than the book value of the acquired assets. Also, the KCC found Kansas Pipeline Partnership's assessment of any ratepayer benefit overstated. The KCC stated it did not find evidence of tangible benefit to the ratepayer. Rather, the KCC stated it found Kansas Pipeline Partnership's evidence of ratepayer benefit to be based upon faulty assumptions. Nevertheless, the KCC allowed the acquisition premium in Kansas Pipeline Partnership's rates due to what it described as other intangible competition benefits. The KCC determined that certain competitive benefits were present and that such intangible benefits were good for the state of Kansas as a whole. The KCC made no determination as to the calculated benefits for existing customers.

In contrast, the Commission has not previously recognized intangible benefits as a basis for rate recovery of acquisition premiums. Moreover, some or all of the acquisition premium may have resulted from transactions with affiliates. We see no justification for including in pipeline rates an acquisition premium paid to affiliates.

In sum: (1) the applicant has not met its burden to show calculated benefits of the acquisition premium; (2) the applicant has not supplied the actual historical basis for the acquisition premium; and (3) there was affiliate involvement in some of the acquisitions. Accordingly, the Commission is disallowing the acquisition premium and the associated depreciation expense in the rate base and cost of service, in the absence of extenuating circumstances such as those in the cases cited supra.

2. Market Entry Costs

Kansas Pipeline Company proposes to include in its rate base $22,666,477 for what it refers to as market entry costs. It also proposes to include in its cost of service $572,774 for a related amortization expense. Kansas Pipeline Company states that the proposed market entry cost consists of two parts. First, $10,538,778 represents "costs" incurred by the applicant's corporate predecessors between 1985 and 1990. Largely these "costs" represent amounts which the corporate predecessors anticipated they would earn, but didn't. The remaining $12,147,699 of the market entry costs represents the cumulative difference in the rate of return the KCC previously allowed Kansas Pipeline Partnership to recover on these market entry costs and the rate of return proposed herein by Kansas Pipeline Company.

The applicant states that the KCC in an order issued March 17, 1995, approved the rate base inclusion of the $10,538,778 as part of a settlement. (This order was subsequently overturned as a result of a state court remand and a KCC order in response to that remand.) The settlement provided that one of the corporate

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predecessors would refrain from bypassing local distribution companies (LDCs). The applicant states that the purpose of the settlement was to further the KCC's goal of bringing pipeline-to-pipeline competition into Kansas, while also preventing competition between the pipelines and LDCs. The applicant argues that, because the KCC approved the $10,538,778 as part of a settlement, the Commission here should not only approve the $10,538,778 cost, but also the $12,147,699 markup on these costs.

The Commission is disallowing the inclusion of these costs in the rate base. On May 14, 1996, the KCC's order approving these costs was vacated and remanded by the Kansas courts. 55/ On December 30, 1996, the KCC issued an order addressing the court's concerns. 56/ That order found the costs not eligible for inclusion in Kansas Pipeline Partnership's rates. As such, Kansas Pipeline Partnership was required to remove the market entry costs from the KCC approved rates and make refunds of all previously collected market entry costs. The KCC's order on remand was upheld in all respects by the Kansas Court of Appeals in a decision issued on June 20, 1997. 57/ Additionally, with respect to the $12,147,699, the applicant was not required to reduce its proposed rate of return in this proceeding, but rather proposed to do so. Moreover, the applicant has not explained or provided justification for why an increased rate of return (over that approved by the KCC) is required here.

Also, citing High Island Offshore System (HIOS) and Iroquois Gas Transmission System (Iroquois) as precedent, the applicant argues that the market entry costs should be approved because the Commission has previously approved rates reflecting deferred costs. 58/ The Commission is not persuaded that these cases serve as precedent, since the issues involved are dissimilar. In HIOS, the Commission allowed HIOS to bill for capacity in service but not yet useful. HIOS was under construction and the capacity was under contract and would become useful as soon as the new

55/ See Williams Natural Gas Company v. KCC, 22 Kan. App. 2d 326, 916 P.2d 52 (1996).

56/ See KCC's Motion to Lodge the KCC Order on Remand in KCC Docket No. 190,362-U (issued December 30, 1996), filed January 8, 1997 in Docket No. RP95-212-003.

57/ See KCC's Motion to Lodge the Decision of the Court of Appeals of the State of Kansas, in Kansas Pipeline Partnership v. KCC, No. 78,523 (issued June 20, 1997), filed June 26, 1997 in Docket No. CP96-152-000.

58/ High Island Offshore System, 1 FERC ¶ 61,209 (1977); Iroquois Gas Transmission System, 54 FERC ¶ 61,285 (1991).

facilities came online. In Iroquois, the Commission placed Iroquois at risk for recovery of construction costs. Unlike the instant case, Iroquois was recovering construction-related costs associated with placing facilities in service. Here, the proposed market entry costs do not relate to the placement of facilities in service. Rather, as stated, they represent amounts the precedent corporate entities hoped to recover but did not. Further, unlike HIOS and Iroquois, the ratepayers will not derive a future benefit from these costs. Accordingly, the Commission finds no basis for the inclusion of the market entry costs in the rate base. Therefore, these costs should be removed from the rate base, and the associated $572,747 in related amortization expense should be removed from the cost of service.

3. Project Development Costs

Kansas Pipeline Company proposes to include in its rate base $6,053,272 for project development costs and in its cost of service $203,472 for related amortization expense for its Linchpin project -- which it no longer proposes to construct. These costs were incurred in 1992 and did not result in any new facilities or any increase in service levels. Kansas Pipeline Company states that it did increase some contract demand levels for Western Resources and, although the Linchpin facilities were not a part of those new services, some of the costs were related. Kansas Pipeline Company argues that these costs should be included in the rate base and cost of service because the KCC approved these costs in a prior state proceeding.

The Commission is disallowing the inclusion of these costs in the rate base and cost of service. These costs consist of expenses such as labor, legal, regulatory, and engineering analysis for the Linchpin project, which was never certificated or constructed. According to the KCC order, these costs were incurred in a long and fruitless attempt to expand business with Western Resources. Further, these costs were disallowed in a subsequent KCC order. 59/ Moreover, the applicant sold whatever project rights it had to KN Energy, Inc.

In any event, the applicant has not justified why these costs should be rolled into jurisdictional rates. The Commission has not previously allowed recovery of these types of costs in jurisdictional rates on a deferred basis. 60/ Accordingly, the Commission is removing these costs and the related amortization expense from the rate base and cost of service.

59/ See KCC's Motion to Lodge the KCC's Order in its Docket No. 97-KPPG-460-TAR (issued May 5, 1997), filed May 9, 1997 in Docket No. CP96-152-000.

60/ See Koch Gateway Pipeline Company, 66 FERC 61,279 (1994).

4. Latest Plant in Service Balances

The Commission notes that Kansas Pipeline Company filed its application more than a year ago, in January 1996. Therefore, the figures included in the application for plant in service and accumulated reserve are no longer up to date. Kansas Pipeline Company's September 1996 plant records show an actual Account No. 101 balance of $68,541,159 or $926,905 less than that projected in its application and an actual accumulated reserve for depreciation balance of $20,597,493, as opposed to the filed balance of $17,900,682. The use of these September 1996 figures results in a net plant adjustment of $3,623,716.

5. Net Debt Expense

Kansas Pipeline Company proposes to include in its rate base $7,084,806 for debt expense and in its cost of service $508,586 for depreciation and amortization expense related to the debt expense. Kansas Pipeline Company states that it refinanced its debt, and as a result it had some expenses.

While the Commission agrees that some of these expenses should be reflected in the rates, the manner in which the applicant proposes to include them is not consistent with the Commission's regulations. Specifically, section 154.312(f) of the regulations provides that such debt expenses should be included in the calculation of the interest component of the capitalization. Therefore, the Commission is denying Kansas Pipeline Company's proposal to include the $7,084,806 interest and $508,586 amortization expenses in the rate base. Instead, the Commission is authorizing Kansas Pipeline Company to revise the interest component of its capitalization to include an apportioned amount of these expenses. The Commission will allow only the apportioned debt expenses associated with the amount of debt provided for in rate base. That would be 21.5 percent expenses supported in a response, filed November 1, 1996, to Question No. 27 of staff's data request. Accordingly, the Commission has recalculated the interest rate component to include these expenses and determined that the new interest component would be 9.97 percent, as opposed to the 9.64 percent reflected in the application.

6. Deferred Income Taxes

Since Kansas Pipeline Company is a partnership, it is not a separate taxable entity and does not pay income taxes. However, Kansas Pipeline Company proposes to be treated for rate purposes as a corporation and, as such, proposes to include an income tax allowance in the cost of service computed, consistent with the Commission's rules on tax normalization. The Commission allows partnership pipelines who are fully owned by corporations that pay income taxes to include a corporate income tax allowance in

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the cost of service. 61/ By doing so, the corporate partners are able to earn the Commission's approved return on investment. 62/ However, if the partnership's cost of service includes income taxes, the partnership must also establish deferred income taxes, to the extent normalized income taxes are collected in rates. 63/

Kansas Pipeline Company proposes to reduce its rate base by an accumulated deferred income tax balance of $375,755. In response to a data request, Kansas Pipeline Company stated that it calculated this amount by subtracting from its book deferred income tax balance of $9,215,025 a total of $8,839,270 for prior years net operating losses from its corporate predecessors. The applicant contends that an allocated share of parent accumulated net operating losses should be used to offset its accumulated deferred tax balance. The applicant argues that these losses should be used as an offset here because the consolidated corporate taxes never got the benefit of Kansas Pipeline Partnership's accelerated depreciation, and therefore did not have the benefit of any interest free money from taxes collected.

The Commission is not persuaded by this argument. Kansas Pipeline Company must employ Commission rules for normalization and reflect in rates the deferred taxes associated with the normalized tax allowance provided for in rates. The applicant does not state whether or not the net operating losses arose from jurisdictional business. Moreover, when asked for tax returns, the applicant did not respond. In sum, the record before us lacks evidence to substantiate the net operating loss offset to accumulated deferred income taxes. Thus, the approved rate base reflects a reduction of $9,215,025 for accumulated deferred income tax, as opposed to $375,755.

(2) Operation and Maintenance Expense Adjustments

The Commission has reviewed Kansas Pipeline Company's operation and maintenance expenses and finds the overall level of actual costs for the period ending December 31, 1996 is $807,770 less than the amount projected in the application. This represents a 6.5 percent difference. The Commission finds that this difference does not rise to the level of requiring an adjustment at this time.

61/ The corporations that are the ultimate partners subject to corporate income taxes are Bishop Pipeline Company and Bishop Gas Transmission Company, both Kansas Corporations.

62/ See Lakehead Pipe Line Company, L.P., Opinion No. 397, 71 FERC ¶ 61,338 (1995).

63/ See High Island Offshore System (HIOS), 55 FPC at 2687 (1976).

Kansas Pipeline Company proposes to include $1,319,699 in Account No. 858 for costs associated with the Transok lease. As stated above, the Commission is requiring the applicant to unbundle this capacity. Therefore, the applicant is instructed to remove these costs from the rates, as other pipelines were required in the Order No. 636 proceedings.

(3) Depreciation and Amortization Expense

As stated, the Commission is denying Kansas Pipeline Company's proposal to include in its rate base amortization and depreciation expenses related to market entry costs ($572,774), acquisition premium ($323,264), project development costs ($203,472), and debt amortization ($508,586). The Commission is denying the inclusion of these depreciation and amortization expenses because the Commission has determined that the items themselves do not qualify for inclusion in the rate base.

Kansas Pipeline Company also proposes to amortize past period costs associated with regulatory expenses and legal bills amounting to $2,223,337 a year. In addition, the applicant proposes to include in its O&M expenses Account No. 928 annual regulatory expenses of $474,478. While the Commission will allow normal regulatory Commission expenses, as included in Account No. 928, the Commission finds no support for the proposed additional amortization of costs included here. The $2,223,337 past period costs which the applicant proposes to amortize stem from its court proceedings involving the KCC. The Commission's regulations provide that such costs are not includable in current rates without prior approval by the Commission to allow special deferred treatment of past period costs. Since neither the KCC nor the Commission has provided such prior approval, the Commission is denying the request to include the $2,223,337 as an amortization expense. The removal of the above items results in a depreciation and amortization expense reduction of $3,831,433.

B. Initial Rates

As stated, the applicant proposes to use the SFV rate design methodology and billing determinants based on the customers' existing firm contractual commitments. This proposal is consistent with the Commission's regulations and, thus, is approved. However, the Commission has recalculated the initial rates to reflect a total cost of service of $21,817,483, consistent with the above discussion. The Commission has calculated the rates for interruptible transportation based on the 100-percent-load-factor derivative of the firm rates in each zone. The rates for small-customer transportation (SCT) are designed as the 40-percent-load-factor derivative of the firm rates. In addition, the Commission finds the proposed commodity rate of $0.0050 per Dth for each zone to be in the public

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interest. Based on the above, the Commission has calculated the initial rates as follows:

	Reservation	Interrupt.	Small Cust. (SCT)	Commodity
Zone 1:	$4.9727/Dth	$0.1685/Dth	$0.4137/Dth	$0.0050/Dth
Zone 2:	$5.7075/Dth	$0.1926/Dth	$0.4741/Dth	$0.0050/Dth
Zone 3:	$5.1817/Dth	$0.1754/Dth	$0.4309/Dth	$0.0050/Dth

The above rates reflect, in part, the cost and service levels experienced by Riverside, Kansas Pipeline Partnership, and KansOk. The Commission recognizes that these levels may change significantly when Kansas Pipeline Company operates as one integrated system. Therefore, the Commission is requiring Kansas Pipeline Company to file a general rate case to establish rates to be effective three years from the issuance of this order.

Panhandle protests that Kansas Pipeline Company did not consider performing an analysis of mileage-based rates versus its proposed zone rates. Panhandle asserts that Kansas Pipeline Company has shown no justification for choosing the proposed zone boundaries and is attempting to perpetuate a rate scheme based on past activities of its affiliates. Thus, Panhandle objects to Kansas Pipeline's rates as not being in the public interest and unjust on their face, and requests a hearing on this issue. Kansas Pipeline Company responds that the proposed zoned rate design is familiar to its existing customers.

The Commission is denying Panhandle's protest on this issue. The Commission notes that Panhandle is a competitor of the applicant, and the applicant's customers did not object to a rate design incorporating zones. The Commission finds that the proposed zone approach is reasonable. Thus, in the absence of protests from the customers, and under the circumstances presented here, the Commission will not require the applicant to perform an analysis of mileage based rates for its system.

C. Accounting

(1) Market Entry And Project Development Costs

The applicant apparently has recorded $22,686,477 of so called market entry costs as gas transmission plant. 64/ As noted, supra, the market entry costs are made up of two components. The applicant initially attempts to support the first component, amounting to $10,538,778, by likening it to an

64/ See Exhibit K of the Application.

allowance for funds used during construction. 65/ In the February 18, 1997 amendment, the applicant attempts to support the amount through various alternative calculations, all of which represent measurements of differences between what was actually earned from operating the pipeline facilities prior to the applicant's ownership of them and what the applicant believes should have been earned during that period. The applicant provides little support for the second component of $12,147,699, other than suggesting that this is an amount that must be added to rate base to support its requested revenue levels at a 13.5 percent equity rate of return. 66/

Under our Uniform System of Accounts' requirements and generally accepted accounting standards, an entity can record as utility plant only the costs it has incurred to acquire or construct them. 67/ The only evidence offered by the applicant that even remotely suggests that the market entry costs were incurred 68/ at all are the calculations submitted in its February 18, 1997 amendment. These calculations relate to periods that preceded the applicant's ownership of the pipeline facilities. The financial results of operating the facilities during that time period are simply irrelevant to the amount that the applicant may record as an asset for financial accounting purposes. The only amount that can be recorded as gas utility plant is the amount the applicant paid to acquire the pipeline facilities.

Because the applicant has made no factual showing that it ever actually incurred the so-called "market entry" costs, the Commission will require the applicant to write off any market entry costs presently recorded in its accounts to Account 426.5, Other Deductions.

Additionally, since the applicant's involvement in Project Linchpin has terminated and recovery of these costs in rates is

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65/ See Application at 12.

66/ See Application at 12-13.

67/ See Gas Plant Instruction No. 2, 18 C.F.R. Part 201; see also Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 5, Paragraph 67.

68/ An incurred cost is "a cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for" (Eric L. Kohler, A Dictionary for Accountants, 5th ed. (Englewood Cliffs, N.J.:Prentice-Hall, Inc., 1975), p. 253) (FAS71, ¶ 9, fn5).

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being disallowed, the Commission will also require the applicant to write off these costs to Account 426.5.

(2) Income Tax

The rates the Commission is authorizing herein include an allowance for corporate income taxes based on the principles of full interperiod tax allocation. Therefore, we will treat Kansas Pipeline Company as a corporation for financial accounting and reporting to the Commission and will require comprehensive tax allocation procedures. Comprehensive tax allocation procedures mean those procedures which require recording a full provision for all income tax effects of temporary differences between recorded amounts on the applicant's books and amounts reported for income tax purposes on the tax returns of each corporate, tax paying member. No income tax provisions are to be provided with respect to any non-tax paying member's share of partnership income.

(3) Proposed Delay in Transfer of Assets

As stated, in its February 18, 1997 supplement, the applicant proposes to form a new partnership, Kansas Pipeline Company, that would hold an interest in each of the three partnerships that would make up the new jurisdictional pipeline. This partnership would hold the FERC certificate and operate the pipeline systems on a consolidated basis under a single tariff, as required by the Commission's November 2 order. Kansas Pipeline Company proposes to own 99.9 percent of the partnership interest of Riverside, Kansas Pipeline Partnership, and KansOk, until completion of potential judicial review of the November 2 order. The applicant does not state who would own the remaining 0.1 percent partnership interest of the partnerships. The applicant proposes to file a Notice of Name Change, along with partnership documents and revised tariff sheets, if its proposal is acceptable to the Commission.

Thus, the proposal is that only "partnership interests" in the three partnerships be transferred to the newly formed partnership named Kansas Pipeline Company. The proposal is that the assets of the three companies not be transferred at this time. Rather, the applicant proposes that the assets of the three companies remain in the name of those individual companies until the completion of court review, which potentially could be years from now.

The Commission is denying this proposal to delay the transfer of the assets, since it is inherently at odds with the portions of the application regarding rate base, cost of service, and environmental compliance. For example, the applicant proposes to include depreciation expenses in the rate base and cost of service. Yet, there can only be a depreciation expense if the applicant owns the assets. If the applicant only owns partnership interests in other partnerships, there can be no depreciation, since accounting principles do not provide for the depreciation of partnership interests.

Further, the applicant's proposal would require separate accounting records to be maintained for Riverside, KansOk, and Kansas Pipeline Partnership until the conclusion of judicial review -- an unknown period of time which potentially could be years. It is unclear what the accounting and tax consequences of this would be, or how this would work exactly. For example, since the contracts and services would be under the new tariff, it would appear that all of the income would be attributable to Kansas Pipeline Company. Yet, since Riverside, Kansas Pipeline Partnership, and KansOk would own the assets, it would appear that all depreciation expenses would be attributable to them.

Another aspect of the proposal that is unclear is what the regulatory status of KansOk, Riverside, and Kansas Pipeline Partnership would be during the period prior to final judicial review. In other words, presumably Riverside, Kansas Pipeline Partnership, and KansOk would maintain their current form of business organization (as partnerships themselves) in order to own the pipeline assets. This would seem to put Kansas Pipeline Partnership and KansOk in regulatory limbo, whereby they would be the owners of substantial utility assets, yet they would no longer be subject to state regulation. And they arguably would not be subject to federal regulation because, instead, Kansas Pipeline Company would be the corporate entity subject to FERC jurisdiction.

The proposal that the assets not be transferred at this time also is at odds with the applicant's indication that it will be responsible for ensuring that the facilities remain in compliance with the Commission's environmental regulations. In essence, the applicant is saying it will be responsible for facilities it does not own.

The applicant argues that it should be allowed to delay the transfer of the assets until completion of judicial review because it contends the Commission erred in determining that it was a jurisdictional pipeline in the first place. It contends that if it is ultimately determined by a court that the Commission erred, and the assets have already been transferred, it will be unable to "unscramble the eggs" or "unring the bell".

Similar arguments were put forth by various pipelines when the Commission implemented Order No. 636. 69/ There, they argued that the court should grant a stay of Order No. 636 because the

69/ Supra, n. 3.

Commission lacked authority to promulgate the rule. They contended that the restructuring proceedings should be stayed until the court ruled on the validity of the Commission's authority. The U.S. Court of Appeals for the D.C. Circuit rejected these arguments. 70/

Similarly, the Commission is not persuaded to delay the transfer of the assets and allow KansOk, Kansas Pipeline Partnership, and Riverside to remain as entities in a type of regulatory limbo pending the outcome of judicial review. The Commission concludes that such regulatory limbo is not in the public interest. Accordingly, the Commission is directing KansOk, Riverside, and Kansas Pipeline Partnership to transfer to Kansas Pipeline Company all of the assets which Kansas Pipeline Company is claiming are in the rate base. The transfer of assets must be completed within 60 days of the issuance of this order. In addition, the Commission is requiring Kansas Pipeline Company to explain who will own the remaining 0.1 percent of the partnership interests discussed above. Kansas Pipeline Company is also directed to file with the Commission's Office of Chief Accountant its actual accounting for the transfer of facilities, as required by Gas Plant Instruction No. 5 and the Instructions To Account 102, Gas Plant Purchased or Sold, of the Commission's Uniform System of Accounts.

D. No-Notice Transportation Service

Kansas Pipeline Partnership currently provides a firm, bundled sales service of: 35,000 Mcf/d and 3.333 Bcf/year to Western Resources; 6,000 Dth/d to Western Resources for service to Paola and others; 4,500 Mcf/d to United Cities Gas Company; and 5,000 Mcf/d to Atmos Energy (Greeley Gas Co.). This service is available up to the customers' maximum daily quantity (MDQ) on demand without scheduling penalties. The customers are required to make a best efforts daily nomination.

Kansas Pipeline Company does not propose to offer a no-notice transportation service to the firm sales customers. Kansas Pipeline Company's proposed tariff provides for a daily scheduling charge that applies to both FT and IT service for quantities delivered outside of the tolerance. It proposes that if the shipper incurs scheduling charges for three consecutive days or on any four days during the month, then the charge doubles for all quantities out of tolerance.

The customers contend that Kansas Pipeline Partnership's existing sales service contracts are a load following (i.e., on demand on an hourly basis) service that is tantamount to a no-notice service. Kansas Pipeline Company contends that with no

70/ Id.

storage and extremely limited linepack capability to limit imbalances, the current sales services cannot be construed as a no-notice service.

Section 284.8(a)(4) of the Commission's regulations states that: "An interstate pipeline that provided a firm sales service on May 18, 1992, and that offers transportation service on a firm basis under Subpart B or G of this part, must offer a firm transportation service under which firm shippers may receive delivery up to their firm entitlements on a daily basis without penalty." This no-notice service, to be offered on a nondiscriminatory basis, allows firm shippers to enjoy a premium quality of service on demand, up to their firm daily entitlements, without the requirement to nominate or schedule volumes and the incurrance of daily scheduling penalties. This allows the shipper to receive unscheduled volumes to meet unexpected requirements caused, for example, by drastic changes in weather. 71/

The Commission notes that Kansas Pipeline Partnership is providing no-notice sales service of 50,500 Mcf/d. The applicant has provided no valid reason as to why it cannot continue to provide no-notice transportation. While it may be that the applicant cannot offer greater than 50,500 Mcf/d of no-notice transportation service because of pipeline line pack limitations and lack of storage capability, the regulations do not require it to offer more than the existing sales service. While offering such service may result in imbalances, since the applicant would no longer control the gas supply, the applicant's imbalance penalties should deter inappropriate customer behavior with respect to supply and delivery considerations.

Accordingly, the Commission is requiring Kansas Pipeline Company to comply with § 284.8(a)(4) of the regulations by providing no-notice transportation service to the former no-notice sales customers of Kansas Pipeline Partnership, Riverside, and KansOk, and to make the appropriate no-notice rate schedule filing within 30 days of the issuance of this order. To the extent that Kansas Pipeline Company can identify any costs to provide no-notice service, these costs should be allocated to the no-notice service rate. Kansas Pipeline Company is instructed to provide detailed work papers in support of any costs allocated.

71/ See Order No. 636-C, 78 FERC ¶ 61,186 at 61,772 (1997), which states that the nondiscriminatory access condition does not obligate pipelines to expand their capacity or acquire additional facilities to provide service. A pipeline offering no-notice transportation service must do so only to the extent the pipeline has capacity available (including storage capacity that may be needed to perform the no-notice service).

B. Transok Lease

As stated, KansOk currently leases 90,000 MMcf/d of capacity from Transok under a long-term lease. 72/ Kansas Pipeline Company proposes to retain this capacity to use as part of its system capacity, provided that doing so will not alter Transok's status as an intrastate pipeline.

Order No. 636 required pipelines to assign upstream capacity rights to the downstream pipeline's customers because of the concern that a pipeline could use these rights to favor its merchant function and inhibit access by other merchants to the production area. The assignment would also prevent customers from paying for capacity they did not need. In Order No. 636-A, the Commission permitted limited retention of upstream capacity downstream of points of unbundling, but only to the extent the pipeline demonstrated its necessity for operational management and balancing purposes and the performance of no-notice service. 73/ In Order No. 636-B, the Commission adhered to its finding in Order No. 636-A that a pipeline may not hold capacity on upstream pipelines to perform a sales service at the interconnection with an upstream pipeline. 74/ However, in Texas Eastern Transmission Corporation, the Commission explained that its Order No. 636 policy did not constitute a per se rule prohibiting interstate pipelines from holding upstream capacity, where a showing can be made that such capacity is vital to the pipeline's operations and services. 75/

The Commission finds that Kansas Pipeline Company has not demonstrated that the Transok capacity is vital to its operations and services. For example, the applicant does not indicate that the capacity is necessary for operational management, such as line pack, cushion gas, fuel, balancing purposes, or for no-notice transportation to cover short-term discrepancies between scheduled quantities and actual deliveries to the customer.

72/ Kansas Pipeline Company characterizes the leased capacity as firm. However, the lease contains seasonal minimum takes and KansOk's right to capacity is subject to the rights of two other shippers who have firm leases with Transok that predate this lease.

73/ Order No. 636-A, FERC Statutes and Regulations ¶ 30,950 at 30,566-567.

74/ Order No. 636-B, 61 FERC ¶ 61,272 (1992).

75/ Texas Eastern Transmission Corporation, 74 FERC ¶ 61,074 (1996); see also Columbia Gas Transmission Corporation, 78 FERC ¶ 61,030 (1997), reh'g denied, 79 FERC ¶ 61,160 (1997).

In addition, the Commission notes that Section 15.1 of the proposed tariff gives the two largest customers first priority for scheduling deliveries using the leased capacity. Thus, the tariff discriminates in favor of these two customers with respect to the use of this capacity.

In view of the above, the Commission is requiring the applicant to offer the leased capacity on Transok to its firm customers for reassignment. Transok will then be free to release KansOk from its lease and substitute the firm customers as the lessees. In addition, the applicant must modify Sections 14 and 15 of the tariff to conform to the above with respect to the reassignment of leased capacity to its firm customers. As noted above, the cost of service and initial rates approved herein are based on assignment of the lease to Kansas Pipeline Company's customers and removal of the costs from its rate base.

If Transok and the firm customers agree to accept the assignment, Transok will be operating the leased capacity to transport natural gas in interstate commerce to the customers in Kansas and Missouri. The Commission has found that when an intrastate pipeline or LDC leases capacity on its facility to transport natural gas in interstate commerce, the transaction is subject to the jurisdiction of the NGA and requires a certificate. 76/

On its own motion, the Commission will grant an NGA section 7(c) certificate to Transok in Docket No. CP97-738-000 to operate leased capacity to deliver gas in interstate commerce to Kansas Pipeline Company's customers. This certificate will be of limited jurisdiction, however. That is to say it will apply only to this particular transaction involving the leased capacity and will not make Transok a natural gas company or otherwise subject Transok or any other Transok operations to Commission jurisdiction.

F. Tariff Provisions

(1) Daily Balancing Tolerance

Section 8.1(b) of the General Terms and Conditions of the proposed tariff includes a balancing tolerance of 5 percent. Kansas Pipeline Company claims this tolerance level is necessary because it has no storage capability. Kansas Pipeline Company

76/ See Sonat Marketing Company and United Cities Gas Company, 68 FERC ¶ 61,334 (1994).

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states that in Williams Natural Gas Co., 77/ the Commission approved a 5 percent tolerance for a pipeline, even though it had storage capability. The KCC protests that a 5 percent level is a change from the industry standard of 10 percent.

The Commission is not persuaded that a 5 percent tolerance level is unreasonable under the circumstances. As a result of the technical conferences and meetings between the parties subsequent to the conferences, Kansas Pipeline Company substantially modified Section 8 of its proposed tariff, while continuing the inclusion of the 5 percent tolerance level. These latest changes to the proposed tariff strike a balance among the varied interests and concerns of the parties. Further, the KCC is incorrect that the industry standard is 10 percent. Other pipelines, such as Panhandle, have a 5 percent tolerance level. Moreover, since Kansas Pipeline Company's system does not include storage and has minimal linepack capability, a lower tolerance level can be justified to maintain the integrity of its system. The Commission will approve the 5 percent tolerance level.

(2) Shippers Behind Delivery Point

MGE, in comments filed subsequent to the conferences, continues to oppose the language in section 8.5(c) on pro forma Sheet No. 227 that reads:

> If the daily allocation methodology at a Point of Delivery identifies a Service Agreement, other than the meter holder's Service Agreement to be allocated the last Quantities through the meter, the Shipper whose Service Agreement has been identified must agree to the allocation methodology before it may become effective.

MGE claims this precludes the meter operator from determining what allocation methodology will be used. Kansas Pipeline Company states that this procedure is similar to that already in place on Panhandle. In response, MGE comments that Panhandle has storage and a no-notice transportation service, and, therefore, Panhandle's system is different from the applicant's system. As such, MGE argues that until the applicant offers the same menu of services, the provision should be stricken from the tariff.

Upon review, the Commission finds this language is necessary because it guarantees that shippers in the same category at the same primary delivery point will be treated equally and on a non-discriminatory basis. Usually any questions as to the hierarchy of delivery at these particular points are

77/ Williams Natural Gas Company, 73 FERC ¶ 61,023 at 61,048 (1995).

addressed in Operational Balancing Agreements (OBA) between the affected parties. This language appears to serve the same purpose as an OBA. While the Commission is not requiring OBAs at this time, the Commission finds this language to be reasonable because it serves as a substitute for such an agreement.

(3) Operational Flow Orders (OFOs)

MGE and Western Resources are concerned that the proposed tariff does not require the applicant to announce an OFO as a precursor to an extreme condition. MGE claims Kansas Pipeline Company alone has control over flow control equipment at its one delivery point. In contrast, the applicant claims that MGE has its own flow control equipment at this location.

Upon review, the Commission is not persuaded that the customers' concerns warrant modification of the proposed tariff. After all, it is prudent and standard operating procedure to usually announce the lowest level of compliance first before instituting a higher level of compliance. In any event, the pipeline should not be hamstrung in a manner that would preclude it from employing a more stringent compliance level immediately if a catastrophic event were to occur without warning. The Commission believes that with cooperation and communication, no problems should arise at this location that would warrant modifying these particular provisions in the pro forma tariff.

(4) Penalty Provisions

The curtailment penalty tolerance in Riverside's and Kansas Pipeline Partnership's existing transportation tariffs are 2 percent and 5 percent, respectively. Kansas Pipeline Company proposes a curtailment penalty tolerance of 3 percent. Western Resources argues that this penalty provision should be the same as that in Kansas Pipeline Partnership's existing tariff, i.e., 5 percent.

The Commission is not persuaded that the 3 percent tolerance is unreasonable, under the circumstances. The Commission notes that, in response to concerns from the customers and the staff, the applicant revised its original pro forma tariff (Sheet No. 232 - section 9.5 and Sheet No. 250) by removing the $25/Dth across-the-board penalty and proposing instead a sliding penalty provision similar to those in Riverside's and Kansas Pipeline Partnership's existing tariffs. The new penalty provision includes a tolerance of 3 percent, penalty steps of 5 percent, 10 percent, and 15 percent and penalty amounts of $5.00/DT, $10.00/DT, and up to $15.00/DT. The levels of these penalties are consistent with Kansas Pipeline Partnership's and Riverside's past operations. Further, these provisions strike a balance with the customers regarding how the applicant will operate in the future as an integrated pipeline without its own gas supply. The

Commission finds that the applicant's attempt to streamline its tariff by making the penalty provisions for all three situations (OFOs, Extreme Conditions and Curtailment) identical and to follow is reasonable and should be accepted.

5. Flow Through of Refund Cashout Revenues

The Missouri PSC argues that Kansas Pipeline Company's proposal to retain cashout revenues obtained from imbalance penalties is contrary to Commission policy. Kansas Pipeline Company states that the provision in Panhandle's tariff which calls for the return or refund of such revenues to its shippers was due to a settlement. Kansas Pipeline Company states that since it has only two major shippers on its system, the return of such cashout revenues would dilute the deterrent value of the penalty.

The Commission's policy has been to differentiate between cashout revenues and overrun penalties. 78/ Cashout revenues are returned to the customers, usually to those customers that had no cash out revenues assessed on a pro rata basis, whereas overrun penalties are usually kept by the pipelines. The Commission is requiring Kansas Pipeline Company to modify Section 24 (Pro forma Sheet No. 288) of its tariff accordingly.

(6) IT Revenue Crediting Mechanism

In response to protests and concerns expressed during the technical conference, the applicant modified its proposal to include an interruptible revenue crediting mechanism in section 25.6 of its proposed tariff. The language of this section is identical to that of Riverside's currently effective tariff.

The Commission notes, however, that no costs have been allocated for IT service. Therefore, the Commission is requiring the applicant to credit 100 percent of the excess IT revenues as defined in Section 25.6, to the firm shippers and the IT shippers paying the maximum rate, and to modify Section 25.6 of its tariff accordingly. 79/ In addition, the Commission is requiring the applicant to modify its proposed language in Section 25.6 to conform to Commission policy wherein the total gross revenues are reduced by the applicable costs, penalties and surcharges prior

78/ See Transwestern Pipeline Company, 58 FERC ¶ 61,067 at 61,157 (1992), reh'g denied; Transcontinental Gas Pipe Line Corporation, 56 FERC ¶ 61,446 at 62,372 (1991); Williams Natural Gas Company, 78 FERC ¶ 61,342 at 62,464 (1997).

79/ See Portland Natural Gas Transmission System, 76 FERC ¶ 61,123 at 61,661 (1996); Transcontinental Gas Pipe Line Corporation, Order on Remand, 78 FERC ¶ 61,057 (1997).

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to refunding the remaining excess revenues to the firm shippers including the IT shippers paying the maximum rate.

The Missouri PSC objects to the vague tariff language concerning the refund mechanism proposed by the applicant. Specifically, it is concerned that there is no stated mechanism or schedule as to how any refunds will be distributed to shippers. Western Resources is concerned that the level of IT revenues the applicant uses to derive its rates and the amount of IT costs allocated (i.e., zero dollars) to the total cost of service does not reflect an adequate amount that would be representative of a real world situation. While the Commission believes the applicant should be allowed to retain some flexibility as to whether it decides to distribute the refund in cash or by a credit against current reservation charges, the Commission agrees with the Missouri PSC that the language is devoid of any real mechanism or schedule as to when refunds will be distributed. To alleviate the Missouri PSC's concerns, the Commission is requiring the applicant to modify Section 25.6 to include the following refund mechanism:

> For multiple rate periods, allocated costs will be prorated based on the number of days each cost level was in effect. Such refunds shall not be given until the rates Kansas Pipeline Company used to compute the revenues are no longer subject to refund. Upon issuance of a final Commission order which accepts new rates under Section 4(e), Kansas Pipeline Company will file within thirty (30) days of such order, an interruptible refund report. Kansas Pipeline Company will mail any refunds, including interest, pursuant to Section 154.501 of the Commission's Regulations, accrued from the end of the twelve-month distribution period ending September 30 of each year, within 10 days following a final Commission order accepting Kansas Pipeline Company's refund filing. "Variable cost" as used in this Section 25.6 will be the product of all quantities delivered under IT service and the minimum rate for such service listed on Sheet No. 16.

(7) Automatic Conversion of Rate Schedule SCT to FT

Kansas Pipeline Company's proposed Rate Schedule SCT allows a small customer to receive a more beneficial one-part rate than Rate Schedule FT service and also allows for all quantities transported in excess of the firm amount to be billed at the IT rate. It also provides for the immediate conversion of all quantities to the more expensive FT Rate Schedule if the customer receives gas service into its own facilities other than that provided by Kansas Pipeline Company for its total system requirements.

The KCC objects to the provision of this rate schedule that requires immediate conversion in instances where the shipper may need to move gas into its system other than through Kansas Pipeline Company's system in an emergency situation.

The Commission is not persuaded to require modification of this provision. The proposed language is virtually identical to that which has been approved in Panhandle's Rate Schedule SCT. 80/ Further, the Commission countenanced this type of requirement in Order No. 636-B so that pipelines can be assured of recovering their costs for this service. 81/ In contrast to the KCC's position, the Commission believes that Kansas Pipeline Company should have control in an emergency. One of the Commission's objectives in Order No. 636, and restated in Order No. 636-B, was to maintain a status quo for a pipeline's former small sales customers that were offered a subsidized, one-part transportation rate by the pipeline. 82/ However, Kansas Pipeline Company may desire to give its small customers a greater level of comfort by including some language in its SCT Rate Schedule such as "unless agreed to by Kansas Pipeline Company" that could be utilized during force majeure situations.

(8) No Credit for Natural Gas Liquids

Section 12.8 of the proposed tariff (pro forma Sheet No. 242) provides that the applicant will retain ownership of 100 percent of all processed liquids that it recovers from a shipper's gas stream, if the shipper elects to have the applicant perform this service. The KCC objects to this provision, arguing that the net proceeds from the sale of these liquids should be returned to the shipper.

The Commission notes that the proposed tariff gives the shipper the option, at least twice a year, of having these liquids processed by others. Further, the proposed language is identical to that approved in Panhandle's tariff. The Commission believes these provisions are adequate to protect the rights of shippers to perform their own processing if they so desire. The KCC's protest regarding this issue is denied.

(9) Proposed Rate Schedule Surcharges

Kansas Pipeline Company's original pro forma tariff filing referenced, but did not contain any specified surcharges in its

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80/ See Original Sheet No. 44, First Revised Volume No. 1, of Panhandle's FERC Gas Tariff.

81/ Order No. 636-B, 61 FERC ¶ 61,272 at 62,021 (1992).

82/ Id. at 62,019.

FT, IT and SCT Rate Schedules. These charges included surcharges for ACA Unit Charges, Unrecovered Purchased Gas Surcharge, Stranded Transportation Cost Surcharge, and Transition Cost Surcharge. Also, the FT rate schedule referenced an overrun charge to appear on pro forma tariff Sheet No. 15; however, no such charge appeared. Subsequently, Kansas Pipeline Company refiled its tariff sheets, which now include a proposed ACA Unit Charge and an overrun charge (equivalent to the 100 percent load factor IT rate). These two charges are not protested by any of the parties.

However, the KCC continues to protest that the absence of specified surcharges for the remaining categories prevents the customers from being able to accurately calculate the full cost of the applicant's services. The KCC contends that the applicant should be required to amend its application to include specific surcharges in its tariff. The customers protest that the tariff language establishing these surcharges is too vague, untested, open-ended, all-inclusive and generally in violation of the principles established by Order No. 636. They ask that the surcharge language be rejected and removed from the proposed tariff until such time as the applicant files to recover these costs in a Section 4 rate proceeding. These surcharges are discussed below.

1. Transition Cost Surcharges

Under Section 17.3 of its proposed tariff, Kansas Pipeline Company seeks authority to recover through a Transition Cost Reservation Surcharge under Rate Schedule FT, the costs attributable to compliance with the Commission's November 2 order. 83/ This section states that such costs "include but are not limited to: reorganization and consolidation expenses, mortgage registration fees, taxes and related expenses, costs associated with assigning and refiling rights of way and other instruments, increased debt instrument costs, upgrading facilities to comply with DOT regulations, etc..." Also included in this section is the standard language which establishes the means to recover Gas Supply Realignment (GSR) Costs brought about by Order No. 636. Included in this surcharge would be a Transition Cost Exit Fee from any customer that reduces or terminates its service, based upon the revenue that Kansas Pipeline Company calculates that it would have collected from the customer during the remainder of the Initial or the Carryover Cost Collection Period.

The KCC protests that the lost potential profits are too speculative to be recoverable. The other protestors object to

83/ See Section 17.3 of the proposed FERC Gas Tariff, Pro forma Sheet No. 268.

the speculative and untested nature of these costs. The Missouri PSC protests that this section is inconsistent with Order No. 636 and Commission policies.

In Texas Eastern Transmission Corporation, 84/ the Commission established standards for what constitutes eligible Gas Supply Realignment Costs. These standards are:

(1) Prior to the issuance of Order No. 636, the contracts must have been part of an overall gas supply portfolio that was commensurate with the pipeline's merchant obligation.

(2) The costs must have been incurred after the issuance of Order No. 636 on April 8, 1992.

(3) The pipeline's contract sales obligations must have decreased as a result of Order No. 636 restructuring, thus necessitating the reduction or elimination of gas supplies under contract.

(4) The costs must be known and measurable (see Order No. 636-A, FERC Statutes and Regulations).

The Commission is requiring Kansas Pipeline Company to comply with the above standards. Accordingly, Kansas Pipeline Company must remove all costs except for Gas Supply Realignment Costs (GSR) from its surcharge. The GSR costs surcharge must conform to the above standards. Specifically, the applicant must make the following changes to this section:

(1) Change the title of Section 17.3: from "Recovery of Transition Costs" to "Recovery of Gas Supply Realignment Costs";

(2) Replace all references to "Transition Costs" in Section 17.3 with "Gas Supply Realignment Costs" or "GSR Costs";

(3) Under 17.3(b)(1), replace: "Transition Costs are" in first line with, "Gas Supply Realignment (GSR) Costs are actual"; and

(4) Under 17.3(b)(1), strike:

> but are not limited to: expenses associated with reorganizing and consolidating the companies into a

84/ Texas Eastern Transmission Corp., 65 FERC ¶ 61,363 at 62,999 (1993).

single pipeline entity; mortgage registration fees, taxes and related expenses; costs associated with assigning and refiling rights of way and other instruments; costs to upgrade existing facilities to comply with DOT regulations for interstate pipelines; increased costs under existing debt instruments attributable to the change in the organizational structure needed to qualify for an income tax allowance;

Further Kansas Pipeline Company is instructed to modify section 17.3(c) of its proposed tariff to comply with Order No. 636-C, with respect to the percentage of GSR costs which should be allocated to the interruptible customers. 85/ Such percentage allocation should be based on actual usage. The remaining percentage of the GSR costs should be recovered from service applicable to Rate Schedules FT and SCT. While the Commission is cognizant of the applicant's claim that there will be little or no IT service after this tariff goes into effect, the fact remains that there is an IT rate schedule in the tariff, as well as a provision for IT revenue crediting, and currently the applicant provides substantial IT service.

To the extent that Kansas Pipeline Company cannot recoup its transition costs associated with its IT service, it has recourse to file during the carryover period 86/ to collect such costs from its other customers. Similarly, Kansas Pipeline may seek to recover any future transition costs, as described above, by making a section 4 rate filing with accompanying tariff language when it has actually incurred such costs.

2. Former Buyer's Obligation for Unrecovered Purchased Gas Costs

In Section 17.4, Pro forma Sheet No. 272, Kansas Pipeline Company seeks to direct bill its former sales customers for any unrecovered purchased gas costs, such costs to be due and payable

85/ Order No. 636-C, Order on Remand, 78 FERC ¶ 61,186 at 61,790 (1997).

86/ See Applicant's February 18, 1997 Submission, at Tab 14, pro forma Sheet No. 269, which defines the Carryover Transition Cost Collection Period as consisting of each annual extension of the initial 3-year collection period to complete the full recovery of the applicant's transition costs.

on the day before the tariff becomes effective. The KCC objects to these provisions, claiming that they provide the applicant with no incentive to mitigate these costs. Western Resources urges us to investigate the purchasing practices of Kansas Pipeline Partnership, apply our prudency tests to their purchases, and analyze purchases by them from a producer affiliate to determine if the negotiations were conducted at arms-length.

The Commission notes that Kansas Pipeline Company has left blank the date prior to the effectiveness of its tariff that would allow it to collect prior period adjustments. In almost all other restructuring cases, this date was the issuance date of the Notice of Proposed Rulemaking that ultimately led to the issuance of Order No. 636. Here, even though Riverside was already an interstate pipeline, its affiliate that purchased gas for resale, Kansas Pipeline Partnership, was an intrastate pipeline. Therefore the date that should be inserted into the language under section 17.4(b) on Sheet No. 272 is November 2, 1995, the date of issuance of the Commission's order establishing FERC jurisdiction.

As to the protests, the Commission is not persuaded by the arguments put forth by the KCC regarding a lack of incentive for mitigation of these costs. These costs have come within the purview of the KCC's oversight, which has included provisions for prudence review. Also, the Commission is declining to investigate the purchase practices of Kansas Pipeline Partnership. Their gas purchases were made under the oversight of the KCC.

3. Recovery of Stranded Transportation Costs

In Section 17.5, pro forma Sheet No. 277, Kansas Pipeline Company proposes to recover 100 percent of its stranded transportation costs from its Rate Schedule FT customers. These costs include levelized interest, which the applicant defines in section 17.5(c)(5) on Sheet No. 279.

First, the Commission notes that this proposal is contrary to the Commission's policy that such costs should be recovered from the firm and interruptible shippers. Further, the firm shippers on the applicant's system would be the FT shippers and the SCT shippers. Accordingly, a proportionate amount of these costs should be recovered from the SCT shippers. Kansas Pipeline Company is instructed to reflect these changes in the compliance filing required by this order. In the event that costs attributed to the IT and SCT rate schedules are not recovered, Kansas Pipeline Company can pursue other options to recover them at that time.

Next, the Missouri PSC objects to the definition of levelized interest and requests that it not be included in the tariff. The Commission is denying this request, since the proposed language complies with the Commission's regulations and is the same language that has been approved for other pipelines, such as Panhandle.

Finally, the Commission notes that the proposed tariff references §154.67 of the Commission's regulations, which has been changed to § 154.501. The applicant is instructed to make this correction.

(10) Daily Scheduling Charges and the High-Low Pricing Mechanism used to Calculate Imbalance Charges

In Sections 12.11(a)(1) & (2), on Pro Forma Sheet Nos. 244 and 245, Kansas Pipeline Company proposes a "high-low pricing mechanism" to calculate imbalance charges. Under this proposal, the Daily Scheduling Charge would be the maximum applicable IT commodity rate per DT for quantities above the tolerance level. If a shipper incurs Daily Scheduling Charges for three consecutive days or for any four days during the month, the charge doubles for all variances in excess of the tolerance level during the month.

The proposal also incorporates a sliding scale to calculate the monthly imbalance penalty. Under this method, receipts in excess of the maximum allowable imbalance quantity (MAIQ) are to be sold by Shipper to Kansas Pipeline Company using the lowest weekly spot price index. Excess deliveries are to be purchased by Shipper from Kansas Pipeline Company at the highest weekly spot price index. The excess receipts are attached to a downward sliding scale and the excess delivery charges are attached to an upward climbing scale.

Western Resources protests that Daily Scheduling Charges are not included in Kansas Pipeline Partnership's existing tariff and, thus, should not be allowed in the proposed tariff because they are too restrictive and contravene historical practices. MGE protests that the High-Low Pricing Mechanism coupled with the sliding scale used to calculate the monthly imbalance penalty should be removed because it allows for a "double-dip" and places an undue burden on the customer. Both claim that these procedures constitute a unilateral breach of existing long term contracts on the part of Kansas Pipeline and, as such, are forbidden by the Mobile-Sierra doctrine. 87/

87/ See United Gas Pipe Line Co. V. Mobile Gas Corp., 350 U.S. 332, 345 (1956); Federal Power Commission v. Sierra Public Power Co., 350 U.W. 348 (1956).

In response, Kansas Pipeline Company states that its proposal is designed to conform to the Commission's regulations and policies under Order No. 636. It notes that these procedures have been approved in other restructuring proceedings in order to deter abuse and protect the pipeline's system from adverse pressure situations. 88/ With respect to the contracts, the applicant states that the Commission's acceptance of this provision would result in a modification of the agreements.

The Commission will accept this aspect of the proposal. The applicant will be operating in a new environment once its tariff goes into effect. Among other things, the applicant will be relinquishing its gas supply to its customers, if they so desire, and will have to rely on its customers to keep the system in balance. Further, the applicant does not have storage attached to its system and has a very limited line-pack capability due to the small diameter of its pipeline throughout its system. Under these circumstances, the Commission concludes that the applicant requires these control procedures to protect the integrity of its system. The proposed provisions, together with the other tariff modifications required by this order, achieve a middle ground wherein the shipper's concerns and those of the applicant are balanced so that a workable operating solution can be found for this pipeline. Further, as stated, the proposed provisions are consistent with those approved for other pipelines, such as Panhandle and Texas Eastern.

(11) Reservation Charge Crediting and Force Majeure

Kansas Pipeline Company's proposed Force Majeure provision, set forth in Section 19, pro forma Sheet No. 284 of the proposed tariff, provides that the shipper must continue to pay reservation charges during force majeure situations.

Western Resources protests this provision, arguing that it is different than Kansas Pipeline Partnership's existing tariff, which Western Resources claims allows for crediting of reservation or contract demand charges during force majeure situations.

Upon review, the Commission concludes that the tariff is confusing. While the force majeure section does not provide for crediting of the reservation charges, other sections of the tariff do provide for crediting during Operation Flow Order (OFO) situations. What is confusing is that an OFO situation would necessarily occur if a force majeure situation arose and curtailments results. So, while the force majeure section would not provide for crediting, the OFO section would. Kansas

88/ See Panhandle Eastern Pipe Line Company's and Texas Eastern Pipeline Company's FERC Gas Tariffs.

Pipeline Partnership's tariff is equally confusing, with the result that it is unclear as to whether Western Resources is correct that that tariff provides for crediting.

In any event, the Commission clarifies that the tariff should provide for crediting of the reservation or contract demand charges for all curtailment situations. These would include force majeure related curtailments, OFO related curtailments, and any other type of curtailments. To implement this requirement, the applicant should modify Section 9.8 (Pro forma Sheet No. 233) of its proposed tariff to include the phrase "and Section 12.12" in the first line after the words, "...Section 9.2."

(12) Direct Bill

Section 17 of the pro forma tariff is a direct bill provision for Western Resources involving project development costs. During the technical conference on February 6 and 7, 1997, the applicant agreed to remove this section from the tariff. 89/ Accordingly, the applicant is instructed to do so.

(13) GISB

On March 6, 1997, the Commission issued an order 90/ concerning the filing made by Riverside to comply with the Gas Industry Standards Board (GISB) standards adopted in Order No. 587. 91/ On April 1, 1997, Riverside made a filing in Docket No. RP97-169-001 to comply with the March 6 order and with Order No. 587-B, with a proposed effective date of June 1, 1997. On April 1, 1997, Riverside also filed a request to postpone the effective date to coincide with the effective date of the certificate application and proposed tariff sheets currently pending in Docket No. CP96-152-000.

The Commission granted this request in an order issued on May 15, 1997. 92/ There, the Commission also directed Riverside to refile the proposed tariff sheets reflecting the revisions discussed in that order in its tariff and certificate proceeding in Docket No. CP96-152-000. Riverside refiled these sheets on

89/ See Transcript of February 6 and 7, 1997 technical conference in Docket No. CP96-152-000, et al., at 276.

90/ Riverside Pipeline Company, 78 FERC ¶ 61,245 (1997).

91/ Standards for Business Practices of Interstate Natural Gas Pipelines; Order No. 587, 61 Fed. Reg. 39,053; Order No. 587-B, 78 FERC ¶ 61,076 (1997).

92/ Riverside Pipeline Company, 79 FERC ¶ 61,174) (1997).

May 30, June 6, and July 24, 1997 in this proceeding. The Commission has reviewed these sheets and will approve them as part of the applicant's new tariff. Of course, the sheets must be revised to reflect the applicant's name of Kansas Pipeline Company, as opposed to Riverside.

In a letter filed on September 12, 1997, the applicant requests a one-year extension of time to comply with certain standards developed by GISB for electronic data interchange (EDI), electronic delivery mechanisms (EDM) or internet server, and the related capacity release standards adopted by the Commission in Order Nos. 587-B and 587-C. 93/ The applicant notes that the Commission has previously granted such relief to small companies where the cost of complying with these standards appeared to exceed the benefits for the pipelines and their customers at the time. 94/ The applicant states that its two largest customers, Western Resources and MGE, are satisfied with the existing means of communicating with the applicant by telephone or telecopy, and support the requested extension of time to comply with the new EDI, EDM, and capacity release standards.

The Commission agrees that the applicant's circumstances are similar to those surrounding the pipelines granted time extensions in Gulf States Transmission Corp., et al. There, the Commission extended the time for compliance until June 1, 1998. Similarly, the Commission will grant the applicant an extension of time for compliance with the EDI, EDM, and capacity release standards until June 1, 1998.

(14) Minor Corrections to Tariff

Upon review, the Commission has found various small errors, typographical mistakes, and misnumbered items in the latest revision of the pro forma tariff filed on February 18, 1997. These errors are listed in Appendix A of this order. The applicant is instructed to correct these errors.

G. Environment

A Notice of Intent to prepare an environmental assessment (EA) was not prepared for this project because no environmental

93/ Standards for Business Practices of Interstate Natural Gas Pipelines, III FERC Stats. & Regs., Regulations Preambles ¶ 30,039, 76 FERC ¶ 61,042 (1996); reh'g denied, Order No. 587-A, 77 FERC ¶ 61,061 (1996); Order No. 587-B, 78 FERC ¶ 61,076 (1997); Order No. 587-C, 78 FERC ¶ 61,231 (1997).

94/ Gulf States Transmission Corp., et al., 79 FERC ¶ 61,102 (1997).

issues were raised in the interventions or letters filed with the Commission and no significant environmental concerns were identified by the staff. This proceeding involves restructuring KansOk, Riverside, and Kansas Pipeline Partnership to reflect one interstate pipeline system. The applicant's request for blanket certificate authority to construct and operate certain facilities under section 157.204 qualifies as a categorical exclusion under section 380.4(a)(21). The applicant's proposal to provide sales service under section 284.284 would have no environmental impact since no new facilities would be constructed to render this service.

The staff prepared an environmental assessment (EA) for the applicant's restructuring of the existing companies into one jurisdictional company. The EA addresses when the facilities were constructed, the condition of the pipeline right-of-way, continuing maintenance of the pipeline right-of-way, and noise.

Based on the discussion in the EA, the Commission concludes that if operated in accordance with the application, as supplemented, approval of this proposal would not constitute a major Federal action significantly affecting the quality of the human environment.

The applicant would operate three compressor stations constructed as intrastate facilities in Kansas and Oklahoma between 1990 and 1992, the Ottawa, Beaumont, and Pawnee Compressor Stations. In response to our data request of August 6, 1996, the applicant agreed to have noise surveys completed at each compressor station between December 1, 1996 and February 15, 1997, when the compressors could be operated at full load. The applicant explained that due to low-load operating conditions during the summer and shoulder months, the compressors could not be operated at full load long enough to conduct the noise surveys at that time.

On March 10, 1997, the applicant filed the results of the noise surveys performed at the compressor stations during December 1996 and January 1997. The following results were reported:

Compressor Station	Nearest Residence	Ldn at Nearest Residence
Ottawa	683 feet	51.0 dBA
Beaumont	2,500 feet	54.4 dBA
Pawnee	1,300 feet	67.0 dBA

Based on the noise survey results filed with the Commission, these noise measurements appear reasonable. However, as reflected in the table above, the noise level at the Pawnee Compressor Station exceeds an Ldn of 55 dBA. The applicant

states that the noise level could be reduced to meet an Ldn of 55 dBA by using one of the following alternatives:

(1) Install one new catalytic converter/silencer module on Unit 503 and replace existing catalytic converters on Units 501, 502, and 504 with catalytic converter/silencer equipment; or

(2) Install silencers on existing Units 501, 502, 503, and 504. However, this option may reduce station horsepower. The applicant states that further analysis of this option is ongoing.

The applicant has not identified which noise reduction alternative it proposes to use. The applicant is instructed to install additional noise controls at the Pawnee Compressor Station to meet an Ldn of 55 dBA at any noise-sensitive areas at full load within 1 year of the issuance of this order. The applicant shall confirm compliance with the Ldn of 55 dBA requirement by filing a second noise survey with the Secretary of the Commission no later than 60 days after it installs the additional noise controls.

The applicant states that the only known section of right-of-way with stability or erosion problems is a 6-inch-diameter pipeline spanning a drainage ditch in the Kansas City metropolitan area. This pipeline was scheduled for reburial in September 1996. All of the pipelines are monitored by field personnel and by aerial patrol. Riverside, Kansas Pipeline Partnership, and KansOk state they have an ongoing program to lower pipelines when shallow cover is discovered. The highest priority areas are located on tillable land. They try to work closely with landowners who farm, particularly when they perform terracing work. Once shallow pipelines that require remedial attention are identified, corrective actions are taken.

To ensure proper maintenance, the applicant has agreed to adopt the post-construction maintenance portions of our Upland Erosion Control, Revegetation, and Maintenance Plan (VIII.A.5.) and Wetland and Water body Mitigation Procedures (V.D.1. and VI.B.1 and 2). The applicant is directed to do so.

H. Other Issues

(1) United Cities' Protest

United Cities is a local distribution company (LDC) which serves the Kansas City metropolitan area. United Cities states that the KCC has prohibited Kansas Pipeline Partnership from bypassing United Cities to connect to its one and only large industrial customer. United Cities protests that the

Commission's policies do not encompass such protection from LDC bypass.

The Commission finds that United Cities' protest is speculative and premature. While the Commission's policies are designed to foster competition in the natural gas industry, they are not intended actively to encourage LDC bypass. Moreover, the Commission's regulations provide that a pipeline must notify the LDC if the pipeline proposes to bypass the LDC. United Cities does not indicate that the applicant has provided such notification, nor does the applicant indicate that it intends to bypass United Cities. If such a bypass is proposed at a later date, United Cities is free to protest it then, and the Commission will consider such protest in the appropriate proceeding.

(2) The "Settlements"

On May 15, 1996, the applicant submitted for informational purposes only a pleading styled as a settlement between it and the KCC. The applicant requested that the Commission defer comment on it until further notice, pending its discussions with the parties. Thus, this pleading did not constitute a settlement under Rule 602 of the Commission's rules of practice and procedures. Subsequent discussions between the parties were nonproductive, and the KCC subsequently stated that circumstances had changed due to the passage of time and other events, thus effectively mooting the purported settlement.

The applicant's February 18, 1997 filing also included a section styled as a settlement. However, this purported settlement is opposed by all the parties, and was prepared without participation of the customers or other parties. Thus, there was no give and take or discussions leading to a convergence of viewpoint. Previously, the Commission has found that a unilateral filing that is styled as a settlement, especially one that is universally opposed, is not a settlement under Rule 602. 95/

On August 11, 1997, the applicant submitted for informational purposes only another pleading styled as a settlement. This pleading, which the applicant refers to as the KCC settlement, was approved by an order of the KCC on July 29, 1997. 96/ The pleading purports to settle all cases pending

95/ See Transcontinental Gas Pipe Line Corporation, 37 FERC ¶ 61,288 at 61,869 (1986).

96/ See the KCC's order "In the Matter of the Partial Suspension of Western Resources' Monthly Purchased Gas Adjustment (PGA) (continued...)

before the KCC and all tariff issues related to its proposed FERC tariff for the signatories, Kansas Pipeline Partnership, et al., the staff of the KCC, Western Resources and CURB. Williams and Kansas Pipeline Partnership filed for rehearing of the KCC's order. The applicant states that at such time as the KCC settlement becomes final, it will file tariff sheets reflecting the terms of that settlement. In any event, this pleading was submitted to the Commission for informational purposes only. As such, it does not constitute a settlement under Rule 602. Accordingly, the Commission will not address the merits of this purported settlement.

I. Lifting of Stay

The Commission's December 8, 1995 order stayed the effectiveness of the Commission's jurisdictional findings until 60 days after the issuance of an order on the merits of petitions for rehearing. The instant order denies those petitions for rehearing and issues a NGA section 7(c) certificate to Kansas Pipeline Company to acquire and operate its system in accordance with federal regulation. Accordingly, the Commission is lifting its stay of the November 2 order, effective 60 days from the issuance of this order.

VI. Docket No. PR94-3-002

On June 15, 1995, the Commission issued an "Order Establishing Rates After Staff Panel Proceeding" in KansOk's proceeding in Docket No. PR94-3-000. 97/ That order established rates for KansOk for firm and interruptible transportation service KansOk performed under NGPA section 311. The rates were subject to refund. KansOk seeks rehearing of that order, arguing the Commission erred by: (1) disallowing proposed rate case expenses; (2) disallowing the actual fuel usage factor; (3) not clarifying that KansOk qualified for an income tax allowance; and (4) requiring KansOk to make a rate filing by October 1, 1996, three years from its initial filing. These issues are discussed below.

A. Allowance for Rate Case Expenses

KansOk proposed amortizing $45,000 in regulatory expenses over a 3-year period, with the result that $15,000 of those costs would be included in the proposed cost of service. The June 15 order rejected this proposal, instead allowing rate case expenses

96/(...continued)
Effective Date December 1, 1996", issued in its Docket No. 97-WSRG-312-PGA, reh'g pending (1997).

97/ KansOk Partnership, 71 FERC ¶ 61,340 (1995).

of $1,793, or 1/3 of the $5,380 filing fee for KansOk's petition for rate approval.

In its request for rehearing, KansOk presents material and argues for rate case expenses of $29,691, representing a three-year amortization of $89,072. KansOk now claims this figure represents its actual regulatory expenses for the period November 1, 1993, through June 1995.

KansOk states it is appropriate for the Commission to approve rates based on the data submitted herein in recognition of the absence of pre-filed testimony in the staff panel proceeding. 98/ First, KansOk states that participants in the staff panel proceeding have no advance notice of the issues to be addressed, and KansOk cannot be reasonably expected to present support at an informal, non-evidentiary staff panel proceeding on issues that had not been raised earlier.

Second, KansOk argues that its regulatory expenses could not have been reflected in its test period data since they were incurred after the test period in connection with the instant proceeding. KansOk states that it is Commission policy to permit the recovery of such costs amortized over a three-year period to spread rate case expense over a period of time rather than use a test year approach because regulatory expenses are not incurred each year. 99/

Finally, KansOk contends that since these expenses were incurred in this proceeding, they should be recovered over the period during which the rates approved herein will be in effect. Since it is Commission policy to permit recovery of regulatory expenses as a cost of service item, KansOk states that there is no legitimate basis for denying recovery of the costs it has actually incurred.

The Commission's regulations do not provide for the introduction of new evidence in conjunction with requests for rehearing. The evidence must support the cost claimed in the original filing. 100/ Therefore, the Commission will grant partial rehearing and permit KansOk to include as a cost of service $15,000 for regulatory expenses as proposed in its initial filing (a three-year amortization of an estimated $45,000 of such expenses). Upon reconsideration, the Commission

98/ See Mustang Fuel Corp., 31 FERC ¶ 61,265 (1985).

99/ See Lakehead Pipe line Company Limited Partnership, 71 FERC ¶ 61,338 (1995); see also Williston Basin Interstate Pipeline Co., 71 FERC ¶ 61,019 (1995).

100/ See Southern Natural Gas Company, 72 FERC ¶ 61,322 (1995).

concludes that the documentation presented by KansOk in its initial filing and in response to various data requests is sufficient support for this cost of service item.

B. Fuel Usage Factor

The June 15 order required KansOk to use a fuel use factor of 2.09 percent, as proposed by Western Resources, as opposed to the 2.38 percent proposed by KansOk. In rejecting KansOk's proposal in favor or Western Resources, the order stated that KansOk had not provided support for the 2.38 percent figure, whereas Western Resources had used actual throughput and fuel use in developing its proposed 2.09 fuel use factor.

On rehearing, KansOk states that its proposed 2.38 percent factor represents its actual compressor fuel usage. KansOk states that the actual throughput of 22,369,006 MMBtu used by the Commission does not reflect the actual volumes compressed by KansOk. 101/ KansOk notes that its west leg has no compression and that it does not charge compressor fuel for deliveries on this leg. Further, volumes that exit the Transok system are not compressed. KansOk argues that to include these volumes artificially inflates the volumes compressed and, correspondingly, understates the actual system fuel factor. If throughput is matched with the corresponding fuel on KansOk and Transok, KansOk calculates the fuel usage factor as follows:

Transok fuel	297,519 MMBtu
KansOk fuel	169,819 MMBtu
Total	467,338
KansOk/Transok throughput	19,638,940
Fuel Usage	2.38 percent

KansOk states that it did not include as part of the Transok fuel any volumes attributable to Transok-only deliveries, since Transok-only throughput was not being used to derive the fuel factor. Moreover, since the Commission's fuel factor calculation included KansOk fuel, KansOk states it should not be applied to Transok-only deliveries that never flowed through KansOk's compressors. KansOk notes that the fuel charge on Transok is a

101/ This figure represents all volumes delivered by KansOk for the 12 months ending September 30, 1993, including volumes delivered through KansOk's Pawnee compressor station to Riverside Pipeline Company, L.P., intrastate volumes delivered off KansOk's west leg which has no compression, and volumes delivered off Transok's intrastate system in Oklahoma.

matter of contract between KansOk and Transok. Further, KansOk states that its proposal is the same as that approved previously by the Commission, in its settlement in Docket No. PR91-6-000. 102/

Generally, the Commission believes a fuel use factor should be applied system-wide, but that method is not appropriate here. The calculation detailed in the June 15 order results in a mismatch in volumes yielding an inappropriate fuel use factor. Given the operation of KansOk's system, KansOk's calculation more appropriately marries throughput with compressor fuel usage. Our review indicates that KansOk's calculations are mathematically correct. Therefore, we grant rehearing and will allow KansOk to use a fuel usage factor of 2.38 percent.

C. Allowance for Income Taxes

The June 15 order required KansOk to support its claimed corporate tax allowance with evidence that its partners will actually incur corporate taxes on KansOk's earnings. In response, KansOk filed additional documentation to supplement the record on June 30, 1995.

The documentation included: (1) data clarifying the ownership structure of KansOk and Syenergy Pipeline Company, L.P., (Syenergy) the managing general partner of KansOk; (2) certificates of incorporation for the entities of the KansOk Partnership ownership structure; and (3) a letter dated June 23, 1995, from the accounting firm of Ernst & Young, the independent auditors of Syenergy. Among other things, the letter states that for state and federal tax purposes, KansOk is merely a conduit to its tax paying partners and that all taxable income generated from KansOk's activities are not tax-exempt but are allocated to its partners who will be required to pay both federal and Oklahoma income tax on behalf of the partnership's operations. KansOk also included a calculation of KansOk's deferred tax liability 103/ and a recalculation of KansOk's rates reflecting a rate base adjustment for accumulated deferred income taxes.

The information supplied by KansOk demonstrates that its partners are corporations subject to corporate taxes, and as such, a corporate tax allowance for state and federal income taxes in KansOk's cost of service is justified. KansOk also included a calculation of the appropriate accumulated deferred income taxes in accordance with the Commission's tax

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102/ See KansOk Partnership, 58 FERC ¶ 61,152 (1992).

103/ See Attachments 3 and 5 of KansOk's June 30, 1995 response to the June 15 order.

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normalization policies. However, KansOk's calculation of tax allowance and accumulated deferred income taxes and the subsequent recalculation of rates employs the current Oklahoma state income tax rate of 6.00 percent, as opposed to the 5.00 percent state tax rate applicable to the rate period in question. Thus, the state tax rate should be 5.00 percent, the rate used by the Commission in the order establishing rates, and the rate employed by KansOk in its petition for rate approval. Therefore, the Commission is granting rehearing on this issue and directing KansOk to file revised rates and supporting schedules recalculating the tax allowance, accumulated deferred income taxes, and rates employing a 5.00 percent state income tax rate.

D. Rate Refiling Requirement

Ordering paragraph (D) of the June 15 order required KansOk to file a petition for rate approval pursuant to section 184.123(b)(2) of the Commission's regulations on or before October 1, 1996, to justify the systemwide rates approved in the proceeding in Docket No. PR94-3-000, or to file changed rates. KansOk did not make the requisite filing. On rehearing, KansOk argues that there is no reason to require it to restate its rates.

In light of the Commission's issuance herein of the certificates to Kansas Pipeline Company, and the approval of initial rates, the Commission does not see any purpose in requiring KansOk to restate its rates. Accordingly, the Commission will not require KansOk to do so. The fact that KansOk will now be part of an interstate pipeline and subject to the Part 260 and 284 reporting requirements renders this issue moot.

E. Refunds

KansOk is directed to file revised rates and appropriate supporting schedules and calculations within 15 days of the date of the order, consistent with the findings above. The rates are to be effective on December 1, 1993.

Within 30 days of the date of this order, KansOk must refund all amounts collected in excess of the approved, recalculated rates, together with interest calculated in accordance with 18 C.F.R. § 154.67 of the Commission's regulations.

VII. Conclusion

Upon review of the record, the Commission reaffirms its conclusion that the natural gas system comprised on KansOk, Riverside, and Kansas Pipeline Partnership constitutes an interstate pipeline system subject to the Commission's jurisdiction under the NGA. Accordingly, the Commission denies rehearing on this issue and grants Kansas Pipeline Company an NGA section 7(c) certificate to acquire and operate its system. The Commission rejects the proposed inclusion of market entry costs, acquisition costs, project development costs, and other various costs in the rate base and cost of service, and approves a rate base of about $39 million, a cost of service of about $21.8 million, and initial rates based on these figures. The Commission is requiring KansOk to offer the capacity it leases on Transok to Kansas Pipeline Company's firm customers. On its own motion, the Commission is issuing a limited jurisdiction NGA section 7(c) to Transok to operate the leased capacity. The Commission is requiring Kansas Pipeline Company to offer no-notice transportation service, and to make various changes to its proposed tariff. In Docket No. PR94-3-002, the Commission is granting, in part, KansOk's request for rehearing, and establishing refunds. Finally, the Commission is concluding that the proceeding herein will not have an adverse impact on the environment because no facilities are proposed to be constructed.

The Commission orders:

(A) The requests for rehearing of the Commission's November 2, 1995 order are denied.

(B) A certificate of public convenience and necessity is issued to Kansas Pipeline Company in Docket Nos. CP96-152-000 and -001, pursuant to section 7(c) of the NGA, to acquire and operate the natural gas pipeline system, as described above and in the application, as supplemented.

(C) A blanket certificate authorizing unbundled firm and interruptible sales service pursuant to Part 284, Subpart J of the Commission's regulations is issued to Kansas Pipeline Company.

(D) A blanket certificate authorizing certain construction and operation of facilities, sales arrangements, certificate amendments, and abandonments pursuant to Part 157, Subpart F of the Commission's regulations is issued to Kansas Pipeline Company.

(E) A limited jurisdiction NGA section 7(c) certificate is issued to Transok in Docket No. CP97-738-000 to operate leased capacity to deliver gas in interstate commerce to Kansas Pipeline Company's customers. This certificate is limited to the particular transaction involving the leased capacity and will not affect the nonjurisdictional status of Transok's other operations. Transok is instructed to inform the Commission, within 30 days of the issuance of this order, as to whether Transok accepts the certificate.

(F) The certificate issued in Ordering Paragraph (B) above, and the rights granted thereunder, are subject to compliance with Subsections (a) and (e) of Section 157.20 of the Commission's regulations.

(G) The applicant is instructed to make an appropriate filing reflecting its name change from Riverside to Kansas Pipeline Company, and to reflect the new name on its FERC Gas Tariff.

(H) The certificates issued in Ordering Paragraphs (B), (C), and (D) above are conditioned upon Kansas Pipeline Company's compliance with the Commission's regulations, including Parts 154, and 284 and Subparts (a), (b), (d), (e) of Part 157.

(I) KansOk, Riverside, and Kansas Pipeline Partnership are instructed to transfer to Kansas Pipeline Company all of the assets reflected in Kansas Pipeline Company's rate base or cost of service within 60 days of the issuance of this order. Kansas Pipeline Company is directed to file its actual accounting for the transfer of facilities, in conformance with Gas Plant Instruction No. 5 and the Instructions to Account 102 of the Uniform System of Accounts.

(J) Kansas Pipeline Company is instructed to file, within 60 days of the issuance of this order: (1) all partnership agreements between Kansas Pipeline Company and the entities that will own it; and (2) all partnership agreements between Kansas Pipeline Company and the entities it will consist of and own.

(K) Kansas Pipeline Company is instructed to write off any market entry costs and Linchpin project costs presently recorded in its accounts to Account 426.5, Other Deductions.

(L) Kansas Pipeline Company is instructed to file an NGA section 4 rate case justifying rates to become effective three years from the issuance of this order.

(M) Kansas Pipeline Company is instructed to make a compliance filing of a complete tariff that includes a no-notice rate schedule, all the changes and modifications discussed in the body of this order and in Appendix C, the name changes as requested by Riverside and signed, and executed service agreements within 30 days of this order.

(N) Kansas Pipeline Company shall follow the mitigation measures described in its application and supplements (including responses to staff data requests) and as identified in the environmental assessment, unless modified by this Order. Kansas Pipeline must: (1) request any modification to these procedures, measures, or conditions in a filing with the Secretary of the Commission (Secretary); (2) justify each modification relative to site-specific conditions; (3) explain how that modification provides an equal or greater level of environmental protection than the original measure; and (4) receive approval in writing from the Director of the Office of Pipeline Regulation before using that modification.

(O) Kansas Pipeline Company shall install additional noise controls at the Pawnee Compressor Station to meet an Ldn of 55 dBA at any noise-sensitive areas at full load within 1 year of the issuance of this order. Kansas Pipeline Company shall confirm compliance with the Ldn of 55 dBA requirement by filing a second noise survey with the Secretary no later than 60 days after it installs the additional noise controls.

(P) The Commission's stay of its November 2, 1995 order in Docket No. RP95-212-000, et al. is lifted.

(Q) The KCC's request for clarification that the November 2 order does not apply to pipelines in Kansas other than Kansas Pipeline Partnership is granted.

(R) KansOk's request for rehearing in Docket No. PR94-3-002 is granted, in part, as discussed in the body of this order.

(S) KansOk is directed to file in Docket No. PR94-3-000 revised rates and appropriate supporting schedules and calculations within 15 days of the date of the order, consistent with the findings above. The rates are to be effective on December 1, 1993.

(T) Within 30 days of the date of this order, KansOk must refund all amounts collected in excess of the approved, recalculated rates in Docket No. PR94-3-000, together with interest calculated in accordance with 18 C.F.R. §§ 154.67 and 154.501 of the Commission's regulations.

(U) Kansas Pipeline Company is granted an extension of time until June 1, 1998 for compliance with the standards developed by GISB for electronic data interchange, electronic delivery mechanisms or internet server, and the related capacity release standards adopted by the Commission in Order Nos. 587-B and 587-C.

(V) The late motions to intervene filed by Midwest Gas Users' Association and the Citizens' Utility Ratepayer Board are granted.

(W) All answers, responses to answers, motions to correct transcripts of the technical conferences, and other pleadings filed in this proceeding are accepted.

By the Commission. Commissioner Massey dissented with a separate statement attached.

(S E A L)

Lois D. Cashell

Lois D. Cashell,
Secretary.

Appendix A
Page 1 of 2

Minor Corrections to Proforma Tariff
(filed February 18, 1997)

Sheet No.	
3 thru 4	Insert system maps
15 thru 17	Change "Transition" to "Gas Supply Realignment"; remove blank lines and replace with "0.0000" to indicate no current surcharges.
54	Under Section 3.5; change "15" to "17"
61	Under Section 3.4; change "15" to "16"
81	Fill in issue date and Docket No. if applicable.
91	Fill in blanks with "Docket No. CP96-152-000, et. al."; in Section 2; correct spelling "su" to "shall".
203	Correct 1.1; "SF" to ""F ". Correct 1.2(a) and 1.4(a); indents. Correct 1.19 with the correct names. Correct 1.23; remove "Storage Agreement".
224	Section 8.2; correct indent.
226	Section 8.2(c); enclose "c" in parentheses. 8.2(d); add comma after 8.2.
231	Section 9.4; correct indentation alignment of (a), (b), (c) and (d).
232	Section 9.5; correct indentation alignment of (a) and (b). Rename "(a), (b) and (c)" under 9.5(b) as "(1), (2) and (3)", respectively, and correct indentation alignment.
235	Paragraph (c); correct indentation.
238	Section 11.5(a); correct indentation.
239	Section 11.5(b)(ii); correct indentation.
243	Section 12.11(a); space between "1" and "times".
248	Section 12.11(g)(1); correct indentation, and replace "12.11(g)(2)" with "12.13".
249-250	Add "12.12(a)" to title: "Types of Operational Flow Orders". Change "(a), (b) and (c)" to "(1), (2) and (3)", respectively.
250	Add "12.12(b)" to title: "The Charge for variances....". Change "(a), (b) and (c)" to "(1), (2) and (3)", respectively. Remove "(" in third to last line.
260	Section 14.6(d), second paragraph; add comma after "unless", add comma after "14", add comma after "service", add "accepts" after "and".
263	Change "15.4" to "15.3", Add "16.1" to first paragraph under "16. Statements and Payments", and correct indentation of "16.1".
266	Section 17.1; change "by" to "of" after "decisions" in twelfth line.
267	Correct alignment.

Appendix A
Page 2 of 2

269	Section 17.3(c); add SCT; replace "17.6" with "17.3", in Section 17.3(d); replace "17.6" with "17.3".

Sheet No.	
270-281	Correct Alignment.
270	Section 17.3(d)(2); correct "Section 154.16" to conform to latest regulation nomenclature, add proper tariff sheet numbers in blank, under 17.3(e), change "17.6" to "17.3".
272	Section 17.4(b); insert "November 2, 1995" in blank space.
276	Section 17.4(f)(4); correct "17.7" to "17.4".
278	Section 17.5(c)(2); insert correct tariff sheet numbers, in 17.5(c)(3), insert date as applicable.
279	Section 17.5(d); insert correct tariff sheet numbers.
282	Section 17.6; delete entire section.
284	Correct Alignment.
286	Correct Alignment, under Section 23.1(b); correct "154.16" to conform to latest regulation nomenclature.
287	Correct Alignment.
289	Section 24; correct "12.13(b)" to the proper section number, under Section 25.4(a); remove "--" and insert correct section number.
510	Add "CAPACITY RELEASE (continued)" to title.
516	Add "A" after "EXHIBIT" in title.

General Changes: Change all references of "154.67" to "154.501".

Kansas Pipeline Company Riverside Pipeline Company, L.P.	Docket Nos. CP96-152-000 CP96-152-001
Transok, Inc.	Docket No. CP97-738-000
KansOk Partnership	Docket No. PR94-3-002 (Not Consolidated)
KansOk Partnership Kansas Pipeline Partnership Riverside Pipeline Company, L.P.	Docket No. RP95-212-002
Williams Natural Gas Company v. Kansas Pipeline Operating Company Kansas Pipeline Partnership KansOk Partnership Riverside Pipeline Company, L.P.	Docket No. RP95-395-002

(Issued October 3, 1997)

MASSEY, Commissioner, dissenting:

I dissent from today's rehearing order for the same reasons stated in my original dissent in this proceeding. 1/ In the interest of brevity, I will not repeat all of those reasons here. Two points, however, are important enough to underscore.

First, central to my original dissent was the fundamental premise that parties should be entitled to rely on clear and longstanding regulatory pronouncements. That is still my view, and today's order does not change my mind on the facts before us. In my original dissent, I highlighted three specific prior instances where the jurisdictional status of these facilities was called into question. In each case, the Commission found that there was nothing in our regulations that prevented the operational and corporate structure of these entities. 2/

Today's order responds that the provisions for limited jurisdiction in Kansas Pipeline Partnership's blanket certificate applied only to activities within the scope of that certificate, and that circumstances have materially changed since its issuance. Yet, in fact the Commission last looked at the

1/ KansOk Partnership, et al., 73 FERC ¶ 61,160 at 61,488-92 (1995), order granting stay, 73 FERC ¶ 61,293 (1995).

2/ Citing, Phenix Transmission Company, 32 FERC ¶ 61,096 at 61,262 (1985), Riverside Pipeline Company, L.P., 48 FERC ¶ 61,309 at 62,015 (1989); and Kansas Pipeline Company, L.P., 49 FERC ¶ 61,235 (1989).

jurisdictional status of these facilities during our review of Riverside Pipeline's restructuring proceeding in compliance with Order No. 636. The structure of the relationship among these entities did not appear troublesome then, 3/ and has not changed remarkably since. One searches the 66 pages of the text of today's order in vain for any factual explication of how circumstances have changed over the past four years. Indeed, there has been no change in circumstances that would justify the Commission's whirling about-face.

Second, this extension of the Commission's jurisdictional reach tramples legitimate state regulatory authority. In its petition for rehearing, the Kansas Corporation Commission (KCC) sets out in some detail its rather extensive efforts since 1985 to regulate the rates, terms and conditions of service of these intrastate pipelines. Relying upon the phantom of "changed circumstances," today's order boldly shreds 12 years of lawful state regulation. This cannot be justified on the record before us.

I share the majority's firm commitment to the regulatory principles enunciated in Order No. 636. However, our regulatory reach is not boundless. The majority scoffs at an "excessively legalistic approach" that would limit our jurisdiction. Yet, it cannot possibly be excessively legalistic to respect lawful state authority.

I respectfully dissent from this order.

William L. Massey,
Commissioner

3/ On the contrary, in the order on Riverside's compliance with Order No. 636, the Commission included a complete description of Riverside's facilities. That description included both the 2-mile portion of Riverside's system that transverses Wyandote County, Kansas to a point in Platte County, Missouri and the two legs (east and west) of the systems that connect points between Osage County, Oklahoma and Cowly County, Kansas, as well as Woods County, Oklahoma and Comanche County, Kansas. Although noting that the east and west legs of Riverside's system were constructed pursuant to Section 311, the Commission never questioned the jurisdictional status of the facilities. Riverside Pipeline Company, 63 FERC ¶ 61,282 (1993), order on second compliance and on rehearing, 64 FERC ¶ 61,300 (1993).

SCHEDULE
MTL - 14

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Kansas Pipeline Company Riverside Pipeline Company, L.P.	)	Docket Nos. CP96-152-000 CP96-152-001
Transok, Inc.	)	Docket No. CP97-738-000
KansOk Partnership	)	Docket No. PR94-3-002 (Not Consolidated
KansOk Partnership Kansas Pipeline Partnership Riverside Pipeline Company, L.P.	)	Docket No. RP95-212-000
Williams Natural Gas Company vs. Kansas Pipeline Operating Company KansOk Partnership Kansas Pipeline Partnership Riverside Pipeline Company, L.P.	)	Docket No. RP95-395-000 (Consolidated)

EMERGENCY MOTION FOR EXTENSION OF STAY

I. INTRODUCTION

Kansas Pipeline Company, Kansas Pipeline Partnership, KansOk Partnership, Riverside Pipeline Company, L.P., and Kansas Pipeline Operating Company (collectively "Kansas Pipeline" or "the Company") respectfully request that the Commission grant an emergency extension of the stay that is currently in effect in the above captioned proceedings. As is fully explained below, the requested emergency extension of stay should be limited in its effect to the rate and base rate reductions imposed by the "Order

Granting and Denying Rehearings, Issuing Certificates, and Establishing Refunds," issued October 3, 1997, Kansas Pipeline Co., et al., 81 FERC ¶ 61,005 (1997) ("October 3 Order").

At the outset, Kansas Pipeline wishes to emphasize that, even though it has requested rehearing of the Commission's October 3 Order and continues to urge the Commission to reevaluate the rates it had set in its Order, Kansas Pipeline is requesting this extension of stay and seeking immediate, emergency relief because of the serious, irreversible ramifications that would result if Kansas Pipeline is forced to begin to charge the rates established in the Commission's Order.

Specifically, if the rates set by the Commission in its October 3 Order go into effect, the Company will be placed in default of its two outstanding debt obligations which are used to finance the pipeline--a long-term debt obligation and a revolving credit line on which the Company relies to finance daily operations. Even if the lenders were to permit the Company to continue to operate without asserting their right to demand immediate repayment of the loans based on Kansas Pipeline's default and the Company were to begin charging the rates approved by the Commission in its October 3 Order, the Company could operate only for a matter of months because it would be losing money -- over $525,000 each month. The Company would not be able to operate with such severe negative cash flow, and fears that it may be forced to seek bankruptcy protection. Simply put, the Company cannot remain economically viable and charge the rates set by the Commission.

Further, this is not only a situation in which a company may be financially ruined. The Commission must be made aware that, if the Company ceases to operate, there inevitably will be disruption to the local natural gas market. First, since the Company's customers are firm customers that resell gas to consumers in Missouri and Kansas, natural gas service is likely to be interrupted in the upcoming winter season. Second, if the Company must sell off assets and reconfigure its pipeline system, such action necessarily would take time and could hamper winter deliveries.

II. BACKGROUND

This proceeding has had a long and tortuous history. The October 3 Order describes that history in detail and it will not be repeated here. In the October 3 Order, the Commission affirmed its November 2, 1996, assertion of jurisdiction over Kansas Pipeline and set initial rates for Kansas Pipeline's services. It also terminated the stay that it had originally granted as to the November 2 Order.[1] For purposes of this Emergency Motion For Extension Of Stay, the critical rulings in the October 3 Order are the Commission's reduction of Kansas Pipeline's rate base (from approximately $100 million proposed by Kansas Pipeline to approximately $39 million) and Kansas Pipeline's allowed cost of service (from approximately $36.7 million proposed by Kansas

[1] October 3 Order at Ordering Paragraph (P); See KansOk Partnership, et al., 73 FERC ¶ 61,293 (1995).

Pipeline to $21.8 million). These reductions will take effect on December 2, 1997, unless these rates are stayed by the Commission.

On November 3, 1997, the Company requested rehearing of the October 3 Order.[2/] In its Rehearing Request, Kansas Pipeline explained in detail the devastating financial consequences the October 3 Order would have on the Company, including the triggering of default under the Company's two principal financing arrangements and severe negative cashflow. Since the Commission will not have the opportunity to address the merits of Kansas Pipeline's Rehearing Request by December 2, 1997, Kansas Pipeline is requesting that the Commission extend its current stay, but only with respect to the rate provisions set forth in the October 3 Order, until such time as the Commission has ruled on the Company's Rehearing Request.

III. EXTENSION OF CURRENT STAY

A. The Commission Should Extend Its Current Stay.

The Commission should grant a limited extension of the current stay pending evaluation of Kansas Pipeline's rehearing request to prevent irreparable injury to kansas pipeline, its customers and the general public. The Commission has the statutory authority to stay any of its actions, if "justice so requires."[3/] It is the Commission's

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[2/] See Request for Rehearing of Kansas Pipeline Company, Kansas Pipeline Partnership, KansOk Partnership, Riverside Pipeline Company, L.P., and Kansas Pipeline Operating Company, filed November 3, 1997 ("Rehearing Request").

[3/] 5 U.S.C. § 705 (1994).

practice to grant such a stay when the moving party satisfies a three prong test.[4/] First, the movant must prove that the action, if not stayed, will cause irreparable injury. Second, the movant must show that a stay, if granted, will not harm other parties. Finally, the Commission must be satisfied that the stay is in the public interest.[5/] As discussed below, Kansas Pipeline satisfies all three prongs. The courts apply a fourth standard, that the applicant for a stay must demonstrate a significant probability that it will succeed on the merits of its claim.[6/] Although the Commission does not typically apply that standard, the strength of Kansas Pipeline's position on the merits, as set out in its Rehearing Request, would satisfy this test, as well.

B. The Consequences Of The October 3 Order Require Extension Of The Existing Stay.

1. The October 3 Order Will Result In Irreparable Injury.

The key element to the Commission's three part test is irreparable injury.[7/] This element will not be satisfied by "[m]ere injuries, however substantial, in terms of money, time and energy necessarily expended in the absence of a stay."[8/] Instead, irreparable

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4/ See CMS Midland, Inc., Midland Cogeneration Venture Limited Partnership, 56 FERC ¶ 61,177 at 61,631 (1991), aff'd sub nom. Michigan Municipal Cooperative Group v. FERC, 990 F.2d 1377 (D.C. Cir.), cert. denied, 510 U.S. 990 (1993) (Midland)).

5/ See Midland at 61,631

6/ See Virginia Petroleum Jobbers Ass'n v. FPC, 259 F.2d 921, 925 (D.C. Cir. 1958) ("Petroleum Jobbers").

7/ Midland at 61,631.

8/ Petroleum Jobbers at 925.

harm may only result from "monetary loss . . . where the loss threatens the very existence of the movant's business."[9] This scenario is exactly the situation facing Kansas Pipeline.

In its Rehearing Request, Kansas Pipeline described in detail the financial consequences of the October 3 Order. Kansas Pipeline incorporates that discussion by reference, and will not repeat it here.[10] To summarize, however, the Rehearing Request discusses how the October 3 Order will trigger defaults under the Company's loan arrangement. A default will occur on the Combined Pipelines Note, the Company's long-term note with a face value of $91 million, because the Company's rate base will be reduced from approximately $100 million (as proposed by Kansas Pipeline and as relied on by the lenders in agreeing to the $91 million financing) to $39 million (approved in the Order).[11] Another default will occur on the Operating Note, the Company's short-term, revolving line of credit note of $7.5 million. (This note includes a cross-default provision triggered by default under the Combined Pipelines Note.)[12] Further, if the Company is forced to operate with the severe negative cash flow that would result if the

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[9] Wisconsin Gas Company v. FERC, 758 F.2d 669, 674 (D.C. Cir. 1985) ("Wisconsin Gas"). See also Iowa utilities Board v. FCC, 109 F. 3d 418, 426 (1996) ("threat of unrecoverable economic loss, however, does qualify as irreparable harm"); Performance Unlimited, Inc. v. Questar Publishers, Inc., 52 F.3d 1373, 1382 (1995) ("impending loss or financial ruin of Performance's business constitutes irreparable injury").

[10] See Rehearing Request at pp. 10-22.

[11] See Section 11.1(b)(ii) of the Combined Pipelines Note; see pp. 17-18 of the Rehearing Request.

[12] See pp. 18-19 of the Rehearing Request.

Commission's rates go into effect, another event of default would be triggered under the "debt service coverage ratio" requirement of the Combined Pipelines Note.[13/]

Pursuant to Section 12(c) of the Combined Pipelines Note, Kansas Pipeline's failure to comply with any of the terms contained in Section 11.1 of that Note constitutes an Event of Default that makes it possible for the lenders to declare the Combined Pipelines Note immediately due and payable. The remaining balance under that Note is approximately $68 million. Additionally, default under the Combined Pipelines Note also triggers default under the Operating Note, which has a current outstanding balance of approximately $6 million. Kansas Pipeline does not have the resources to withstand a call by its lenders of either the Combined Pipelines Note or the Operating Note.

All of the financing for the Company's operations are provided by the Combined Pipelines Note and the Operating Note. All of the Company's utility property and contracts are pledged as collateral under the Combined Pipelines Note and the Operating Note. Accordingly, a default under either instrument could lead to foreclosure by its lenders on the Company's utility assets. Acceleration of the loans and/or foreclosure may force Kansas Pipeline to seek bankruptcy protection. Obviously, default under either Note and foreclosure by lenders on the eve of this winter heating season poses a very

13/ See Section 11.1(b)(i) of the Combined Pipelines Note; p. 17 of the Rehearing Request. Under that provision, Kansas Pipeline is required to maintain a debt service coverage ratio of at least 1.15 to 1.0. Operating under a negative cash flow would violate this requirement. Id.

serious threat to Kansas Pipeline's continued ability to provide reliable natural gas service.

Default under its debt obligations may not force Kansas Pipeline into bankruptcy immediately, since it is conceivable that the Company's lenders would grant forbearance or waive the events of default. Nevertheless, once the events of default described above are triggered, the Company's lenders have the right to call the loans at any time. If that were to occur, Kansas Pipeline would be forced to file for bankruptcy protection.

Further, even if Kansas Pipeline's lenders were to grant forbearance and not call the loans, Kansas Pipeline would face bankruptcy soon after effectiveness of the October 3 Order. Kansas Pipeline would have an annual negative cash flow under the October 3 rates as high as $6.3 million.[14/] Within weeks of implementation of the October 3 rates, Kansas Pipeline's negative cash flow would exhaust its available financial resources and it would be unable to pay its bills. Bankruptcy inevitably would follow, the only question is exactly when Kansas Pipeline would be required to file. Based on Kansas Pipeline's current level of cash on hand and other available financial resources, including the remaining $1.5 million of remaining available credit under its Operating Note, Kansas Pipeline fears that it may be forced to file for bankruptcy protection no later than the first quarter of 1998, if the October 3 Order becomes effective on December 2, 1997.

14/ Appendix 1 to the Rehearing Request.

The economic consequences alone faced by Kansas Pipeline would constitute irreparable injury under controlling precedent.[15] However, as discussed below, if Kansas Pipeline were forced to file for bankruptcy protection, there also would be severe non-economic consequences that would impact others. Clearly, there would be significant disruption to the Company's ongoing business arrangements. Such disruption is particularly significant in light of the coming winter heating season. Kansas Pipeline is fully subscribed and fully utilized at peak. Its firm customers, municipalities and local distributors in Kansas and Missouri, rely on Kansas Pipeline for firm deliveries -- critical in the winter months. In fact, one of Kansas Pipeline's firm customers relies solely on Kansas Pipeline. Thus, any disruption of Kansas Pipeline's operations would pose a serious threat to reliable, retail gas service in Missouri and Kansas. Accordingly, both the economic and non-economic risks posed by the October 3 Order constitute irreparable injury.

In conclusion, the October 3 Order presents Kansas Pipeline with a double-barreled threat to its continued existence and ability to perform reliable service. Either the Company's default of its loans or its negative cash flow could lead to bankruptcy on or shortly after December 2, 1997. The only solution to this immediate risk of irreparable injury is for the Commission to stay the effectiveness of the rate and rate base provisions of the October 3 Order by extending the current stay.

15/ See Wisconsin Gas at 674.

2. Other Parties Will Not Be Harmed By An Extension of the Stay.

Kansas Pipeline is requesting that the Commission stay only the rate and rate base provisions of the October 3 Order. This stay can be tailored to avoid any risk or injury to other parties, if the Commission permits Kansas Pipeline to charge its existing rates (subject to refund) while the stay is in effect. The difference between the rates that Kansas Pipeline charges during the period that the stay remains in effect, and the rates set in the October 3 Order (even if modified on rehearing) would be refunded, to the extent they result in any overpayment by Kansas Pipeline's customers.

Under this approach, Kansas Pipeline's customers would continue to pay the rates that are currently in effect under the Commission's existing stay. Further, any refunds ultimately ordered would earn interest, using the Commission's approved interest rate. Accordingly, no party would be prejudiced by Kansas Pipeline's requested extension of the existing stay.

3. Issuing a Stay of the October 3 Order Will Serve the Public Interest.

As more fully discussed in Kansas Pipeline's Rehearing Request, the October 3 Order threatens to undo more than a decade of state and federal policy designed to promote competition in the natural gas market in the Kansas City metropolitan area. Both the Commission and the Kansas Corporation Commission ("KCC") have recognized that Kansas Pipeline plays an important role by offering a competitive alternative in a market that was a monopoly before Kansas Pipeline entered the market.[16] In short, the Company owes its existence to a public policy initiative, promoted by both the KCC and the Commission, to introduce competition into the natural gas industry serving Kansas City and its surrounding areas. Allowing Kansas Pipeline to be forced out of business before the Commission has had the chance to reconsider its October 3 Order would thwart those initiatives and be inconsistent with the public interest.

Further, as discussed above, the threat of disruption of service during the upcoming winter heating season will increase, if only supplier remains to supply the Kansas City metropolitan area.

C. The Commission Should Preserve The Status Quo By Extending The Stay That Is Currently In Effect, Modified Only To Allow Kansas Pipeline To Unbundle Its Merchant Function.

In its October 3 Order, the Commission approved Kansas Pipeline's unbundling of its merchant function, consistent with the requirements of Order No. 636.[17] Kansas Pipeline's contracts with its two largest customers, Western and MGE, enable it to separate transportation rates from sales rates. Accordingly, Kansas Pipeline does not seek a stay of the requirement that it unbundle its gas merchant function. Kansas Pipeline only requests that, during the period of the stay and pending the Commission's rehearing of the

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16/ See Rehearing Request at 32-35. See Order in re: Application of The Kansas Pipeline Company, Docket No. 142,683-U (January 11, 1985); Riverside Pipeline Co., L.P., 48 FERC ¶ 61,309 at 62,014 (1989).

17/ October 3 Order, slip op. at 18.

October 3 Order, the Commission permit Kansas Pipeline to continue to charge Western and MGE (subject to refund) the transportation rates included in their respective existing agreements.

To implement the requested extension of the stay, the Commission simply could modify that stay to allow Kansas Pipeline to unbundle its merchant function.[18/] Kansas Pipeline would continue to provide the services it has been providing, but on an unbundled basis, and collect the rates on file with, and approved by, the Commission and the KCC. For Western, this rate would be the rate negotiated pursuant to the KCC Settlement.[19/] For MGE, the rate would be governed by the "Riverside I" firm gas transportation agreement which Riverside and MGE executed on February 24, 1995. That contract provides for unbundled gas transportation service at a rate negotiated by the parties.

Kansas Pipeline intends to file, in the near future, tariff sheets that set out the unbundled transportation rates that will apply beginning on December 2, 1997. These tariff sheets will reflect Kansas Pipeline's compliance with the Commission's Order that Kansas Pipeline unbundle its merchant function.

18/ See KansOk Partnership, et al., 73 FERC ¶ 61,293 (1995). Extending the current stay would require the Commission to modify ordering paragraph (p) of the October 3 Order and the directive at page 58 of the Order providing that the stay will be lifted "effective 60 days from the issuance of this order."

19/ See Settlement Agreement between the Kansas Corporation Commission, Western, and Kansas Pipeline, filed with the Commission on August 11, 1997 ("the KCC Settlement").

The requested extension of the existing stay would protect Kansas Pipeline, its customers, and the public from the dire consequences discussed above. Further, it would enable Kansas Pipeline's two largest customers to continue to pay rates that they had agreed to pay through negotiations with Kansas Pipeline. Additionally, as discussed above, since these rates would be collected subject to refund, these customers should be economically indifferent as to the stay.

IV. THE COMMISSION SHOULD STAY ITS ORDER REQUIRING KANSOK TO PAY REFUNDS

In addition to setting Kansas Pipeline's rates, the October 3 Order also ordered KansOk to revise its rates effective December 1, 1993, and to make related refunds. On November 3, 1997, KansOk made those refunds to its customers. As KansOk's only customers are affiliates of Kansas Pipeline, those refunds were accounted for internally and did not affect the cash flow of Kansas Pipeline or its affiliates. The refunds now must be flowed through to non-affiliated customers. If the October 3 Order's rates go into effect, flowing through the KansOk refund amounts to unaffiliated customers may place Kansas Pipeline in an impossible cash flow position.[20/]

The Commission routinely stays refund effects of its orders, until issues raised by related rehearing applications are resolved.[21/] Although Kansas Pipeline has not

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[20/] MGE and Western will be the ultimate beneficiaries of these refunds when they are flowed through.

[21/] See Idaho Power Co., 74 FERC ¶¶ 61,075, 61,224 (1996); Baltimore Gas & Electric Co. and Potomac Electric Power Co., 74 FERC ¶¶ 61,283, 61,906 (1996);
(Continued...)

challenged the Commission's rulings with respect to KansOk's rates, Kansas Pipeline believes that, under the circumstances, these precedents support a stay of the October 3 Order mandating a refund at this time. Kansas Pipeline simply will be unable to pay the undisputed refunds related to KansOk's prior service. Accordingly, Kansas Pipeline submits that a stay of the refund obligation is consistent with the public interest and will not injure any party.

V. THE STATUS OF THE TRANSOK LEASE

In its October 3 Order, the Commission required the Company to offer to assign the Transok Lease to its firm customers. The Order did not address, however, the possibility that Kansas Pipeline's customers may refuse the assignment. Accordingly, Kansas Pipeline hereby notifies the Commission of the status of discussions regarding the Transok Lease.

The October 3 Order has left both Kansas Pipeline and its customers with questions regarding the appropriate disposition of the Transok Lease. Transok is not required to notify the Commission whether Transok intends to accept its limited jurisdiction certificate, until December 2, 1997. Although Kansas Pipeline does not believe that there is any valid reason for Transok to refuse to accept the limited jurisdiction certificate, Transok's failure to do so has created substantial uncertainty for

(...Continued)
Cleveland Elec. Illuminating Co., 76 FERC ¶¶ 61,156, 61,926 (1996).

Kansas Pipeline's customers. Kansas Pipeline believes that that uncertainty may be preventing customers from taking assignment of the Transok Lease.

Assuming that Transok were to wait until December 2 to accept the limited jurisdiction certificate, even if the Company's customers were willing to accept assignment of the Lease, Kansas Pipeline will not have sufficient time to execute assignments of the Transok Lease, before the October 3 Order goes into effect on December 2, 1997. A complicating factor is that MGE had threatened that it would terminate its contracts with Kansas Pipeline, if Kansas Pipeline were to terminate or assign the Transok Lease. This is especially confusing, since MGE has refused to take assignment of the lease. Kansas Pipeline does not believe the Commission intended that the Company choose between assigning the Transok Lease (to an unwilling assignee) as required by the Commission's October 3 Order, or face termination of the contract by MGE (one of the Company's two largest customers).

Kansas Pipeline remains willing to assign all, or a portion, of the Transok Lease to its firm customers. It will continue to work toward assigning the lease. If Kansas Pipeline is unsuccessful in assigning the lease, because all, or some, of its firm customers do not wish to accept the assignment, Kansas Pipeline will retain, and continue to use, any portion of the Lease that it has not assigned to its customers.[22/] Kansas Pipeline's

[22/] If Kansas Pipeline's firm customers remain unwilling to accept assignment of the Transok Lease after the existing uncertainty is eliminated, and if the Commission does not allow Kansas Pipeline to retain the lease permanently, Kansas Pipeline will explore all available alternatives as to the lease, including renegotiation, termination, and

(Continued...)

retention of the lease -- until such time as it may be assigned -- will provide all interested parties with more time to evaluate their options.

Kansas Pipeline's retention of all or a portion of the Transok Lease will not disadvantage any party. First, the scheduling provisions in Sections 14 and 15 of Kansas Pipeline's tariff will not discriminate against Kansas Pipeline's small customers because those customers do not currently use the Transok Lease capacity and will not use it in the future.[23/] Thus, Kansas Pipeline's retention of the leased capacity for the benefit of the customers that historically relied on it will work no injustice on Kansas Pipeline's small customers.

There are other practical considerations that support Kansas Pipeline's retention of the Transok lease, at least until such time as the details of assignment can be worked out among the affected parties. From an operational perspective, Kansas Pipeline's experience in the daily management of this very complicated lease, together with its knowledge of the Transok system, will work to the advantage of Kansas Pipeline's customers, at least in the short-term.

Kansas Pipeline is now able to use the Transok lease to effect daily and monthly swing flexibility to adjust its line pack. Kansas Pipeline has check measurement capabilities and can perform quality checks at the Pawnee receipt point, whereas its customers do not. The firm customers are not familiar with imbalance limitations or minimum flow values, and thus have a greater potential to incur penalties. Simply put,

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(...Continued)
assignment.

23/ In fact, the Company offered to lease firm capacity to these customers, and they rejected it.

Kansas Pipeline's historical management of the Transok Lease to date, has provided the pipeline with the information required to operate the system with the greatest flexibility in scheduling and nominating gas deliveries, and maintaining daily and monthly balancing to avoid the incurrence of penalties.

Finally, Kansas Pipeline requests clarification on how it should treat the costs associated with the Transok Lease in Kansas Pipeline's rates after December 2, 1997, if the lease is not assigned. If the Lease, or any portion thereof, is not assigned, Kansas Pipeline requests that the Commission permit the Company to retain its costs associated with the Transok Lease in the Company's rates, until the Commission acts on the Company's Rehearing Request.

VI. REQUEST FOR A SHORTENED RESPONSE PERIOD AND PROMPT ISSUANCE OF AN ORDER

Kansas Pipeline asks the Commission to shorten the response time to this Emergency Motion for Extension of Stay. Under Rule 213, interested parties ordinarily would have 15 days to answer this motion.[24] Without shortening of the normal response period, the Commission may not have sufficient time in which to respond to Kansas Pipeline's requests. Accordingly, the Company asks that the Commission, in light of the circumstances described in this Motion, require that answers to this Motion be filed no later than November 17, 1997. To facilitate the filing of answers within the shortened

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24/ 18 C.F.R. § 385.213(d).

time period, the Company has served this Motion on all parties by hand delivery, by facsimile (with a copy by U.S. mail), or by overnight mail.

VII. CONCLUSION

For the reasons set out herein, Kansas Pipeline respectfully requests that the Commission grant a limited stay of the rate and rate base provisions of the October 3 Order, as more fully described above.

Respectfully submitted,

Michael A. Stosser
Jane E. Stelck
Heller Ehrman White & McAuliffe
815 Connecticut Avenue, N.W., Suite 200
Washington, DC 20006

James C. Slattery
Drew J. Fossum
Wiley, Rein & Fielding
1776 K Street, N.W.
Washington, DC 20006

Dated: November 10, 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing "Emergency Motion for Extension of Stay" upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 10th day of November, 1997.

Respectfully submitted,

Michael A. Stosser

HELLER EHRMAN WHITE & McAULIFFE

ATTORNEYS
A PARTNERSHIP OF PROFESSIONAL CORPORATIONS

815 Connecticut Avenue, N.W.
Suite 200
Washington, D.C. 20006-4004
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Michael A. Stosser

Washington, D.C.
Hong Kong
Singapore

San Francisco
Los Angeles
Palo Alto

Seattle
Portland
Tacoma
Anchorage

November 10, 1997

Ms. Lois D. Cashell, Secretary
Federal Energy Regulatory Commission
Dockets Room 1A
888 First Avenue, N.E.
Washington, D.C. 20426

Re: Kansas Pipeline Company, *et al.*
Docket Nos. CP96-152, *et al.*

Dear Ms. Cashell:

Enclosed for filing is an original and 14 copies of an Emergency Motion For Extension of Stay in the above-captioned docket.

Please date stamp and return one copy of the filing. Thank you for your attention to this matter.

Sincerely,

Michael A. Stosser

Enclosures

HELLER EHRMAN WHITE & MCAULIFFE
ATTORNEYS

815 CONNECTICUT AVENUE, N.W.
SUITE 200
WASHINGTON, D.C. 20006

PHONE: (202) 785-4747
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Facsimile Transmittal Sheet

DATE: November 10, 1997 # OF PAGES: 21

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SCHEDULE
MTL - 15

Missouri Gas Energy
Case No. Gr-96-450
Gas Supply Costs
Mid-Kansas II vs 8% of WNG/PEPL
and Oxy T/S Pricing

	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Total
Volumes	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
WNG/PEPL 70%/30%													
WNG	$2.1800	$2.1400	$1.6700	$1.6800	$2.5000	$3.6800	$4.3000	$2.8100	$1.6300	$1.7000	$1.9200	$2.1100	
PEPL	$2.1800	$2.1300	$1.6700	$1.6900	$2.5100	$3.6100	$4.1000	$2.7700	$1.6400	$1.7100	$1.9500	$2.1300	
WNG/PEPL 70%/30%	$2.1800	$2.1370	$1.6700	$1.6830	$2.5030	$3.6590	$4.2400	$2.7980	$1.6330	$1.7030	$1.9290	$2.1160	
Rate @ 8% Premium	$2.3544	$2.3080	$1.8036	$1.8176	$2.7032	$3.9517	$4.5792	$3.0218	$1.7636	$1.8392	$2.0833	$2.2853	
WNG/PEPL COG	$711,587	$364,263	$0	$265,132	$2,141,415	$5,684,399	$6,647,881	$3,918,616	$1,257,717	$1,321,998	$1,540,026	$1,644,842	$25,497,875
OXY T/S													
OXY T/S Rate	$3.0351	$2.9678	$1.9603	$4.5282	$2.9952	$3.8945	$4.4561	$2.9894	$1.7453	$1.8274	$2.4708	$2.7043	
OXY T/S COG	$917,320	$468,405	$0	$660,510	$2,372,696	$5,602,090	$6,469,170	$3,876,549	$1,244,638	$1,313,488	$1,826,457	$1,946,433	$26,697,756
Mid-Kansas II													
Transok	$2.0100	$1.9200	$1.4800	$1.4900	$2.2000	$2.9300	$3.6500	$2.4800	$1.4100	$1.5200	$1.7900	$1.9200	
Rate @ 5% Premium	$2.1105	$2.0160	$1.5540	$1.5645	$2.3100	$3.0765	$3.8325	$2.6040	$1.4805	$1.5960	$1.8795	$2.0160	
Rate for Excess Volumes					$2.4200	$3.4650							
Mid-Kansas II COG	$637,871	$318,183	$0	$228,207	$1,654,607	$3,830,267	$5,563,855	$3,376,776	$1,055,799	$1,147,163	$1,389,358	$1,451,026	$20,653,114
Excess Vol. COG	$0	$0	$0	$0	$183,644	$670,318	$0	$0	$0	$0	$0	$0	$853,962
Mid-Kansas II COG	$637,871	$318,183	$0	$228,207	$1,838,251	$4,500,585	$5,563,855	$3,376,776	$1,055,799	$1,147,163	$1,389,358	$1,451,026	$21,507,076
Variance Mid-Kansas II vs WNG/PEPL													$3,990,799
Variance Mid Kansas II vs OXY T/S													$5,190,680

MTL-15 (1 of 1)

SCHEDULE
MTL - 16

FIRM GAS PURCHASE AGREEMENT

This Agreement is made and entered into this 1st day of December, 1994, by and between **K N Gas Marketing, Inc.**, a Colorado corporation ("Seller") and **Missouri Gas Energy**, a división of Southern Union Company, a Delaware corporation, ("Buyer") referred to collectively as "Parties" or singularly as "Party".

In consideration of the premises and mutual covenants and agreements set forth herein, Buyer and Seller agree as follows:

ARTICLE I

DEFINITIONS

Except in those certain instances where the context states another meaning, the following terms when used in this Agreement shall mean:

1.1 Natural Gas and Gas: Natural Gas produced from Gas wells and Gas produced in association with oil (casinghead Gas) and/or the residue Gas resulting from processing both casinghead Gas and Gas-well Gas.

1.2 Day: As defined by the Transporter in the applicable transportation service agreement, or if not defined, then the period of twenty-four (24) consecutive hours beginning at 7:00 a.m. Central Standard Time on any calendar day and ending at 7:00 a.m. Central Standard Time on the calendar day immediately following.

1.3 Month: As defined by the Transporter in the applicable transportation service agreement, or if not defined, then a period beginning at 7:00 a.m. Central Standard Time on the first day of a calendar month and ending at 7:00 a.m. Central Standard Time on the first day of the calendar month immediately following, except that the first month shall begin on the date of initial deliveries of Natural Gas hereunder and shall end at 7:00 a.m. Central Standard Time on the first day of the calendar month immediately following.

1.4 Mcf: One thousand (1000) cubic feet.

1.5 Btu: British thermal unit. The term Dth shall mean one million (1,000,000) Btu.

1.6 Heating Value: As defined by the Transporter in the applicable transportation service agreement, or if not defined, then the gross number of British thermal units (Btu's) which would be contained in the volume of one (1) cubic foot of Gas at a temperature of sixty degrees (60°) Fahrenheit, when saturated with water vapor and under a pressure of fourteen and seventy three hundredths (14.73) pounds per square inch absolute and adjusted to reflect the actual water vapor content of the

Gas delivered; however, if the water vapor content is seven (7) pounds per million cubic feet or less, the Gas shall be deemed dry.

1.7 Transporter: The transporting pipeline company(s) actually transporting the Gas that is the subject of this Agreement at the Delivery Point(s) specified in Exhibit "A".

1.8 Baseload Quantity: Quantities of Gas delivered and received with 100% load factor as specified in the then effective Exhibit "A". The daily quantity will remain constant through each month.

1.9 Variable Quantity: Quantities of Gas which Buyer may nominate on a monthly basis above the Baseload Quantity as specified in the then effective Exhibit "A". The daily quantity will remain constant through each month.

2.0 Peaking Quantity: Quantities of Gas which Buyer may nominate as a daily quantity for a limited number of days during certain months as specified in the then effective Exhibit "A".

2.1 Daily Purchase Quantity: The Baseload Quantity plus any Variable or Peaking Quantity nominated for that particular month.

2.2 Contract Year: Twelve month period beginning December 1 through November 30 for the term hereof.

ARTICLE II

TERM

Subject to the other provisions of this Agreement and Exhibit "A" attached hereto, this Agreement shall be effective and operative from and after December 1 1994, and shall continue in full force and effect through a primary term of five (5) years. This Agreement shall continue thereafter on a year-to-year basis until canceled by either Party upon ninety (90) days written notice prior to the end of the primary term or any extension thereof.

ARTICLE III

QUANTITY, PRICE AND COMMITMENT

3.1 Subject to the other provisions of this Agreement and Exhibit "A" attached hereto, Seller agrees to sell and deliver or cause to be delivered to Buyer, on a firm basis, and Buyer agrees to purchase and receive or cause to be received from Seller the Daily Purchase Quantity of Natural Gas for the term of this Agreement.

3.2 During the term of this Agreement, the Parties shall effect the actual sale and purchase of Gas pursuant to the terms and conditions hereof by signed Exhibit(s)

"A", in the form attached hereto. More than one Exhibit "A" may be executed and in effect at the same time.

3.3 The Exhibit(s) "A" hereunder shall be executed for the purpose of confirming the Parties' agreement as to Agreement Period, Quantity, Delivery Point(s) and Price. It is intended that such Exhibit(s) "A" shall become a part of and incorporated by this reference into this Agreement, that the terms set forth therein shall be binding as though set forth in the body of this Agreement, and that the sale and purchase of Gas pursuant to such Exhibit(s) "A" shall be subject to all other terms and conditions set forth in the Agreement.

3.4 If Seller fails to deliver or Buyer fails to accept on a firm basis the full Daily Purchase Quantity on any day during the applicable purchase period, and such failure is not excused by Force Majeure as defined in Article XIV herein, then the non defaulting Party may recover damages from the defaulting Party as provided in this paragraph. Seller may recover the product of the amount of Dth of Gas that Buyer was deficient in taking (not to exceed the amount actually sold in a replacement sale) times the difference between the price per Dth received by Seller and the price specified in the applicable Exhibit "A", if the replacement price is lower. In the event Buyer is deficient, Seller shall have first right to Buyer's firm transportation capacity related to the deficiency in order to enable Seller to make a replacement sale. Buyer may recover the product of the amount of Dth of Gas that Seller was deficient in delivering (not to exceed the amount actually purchased as replacement) times the difference between the price per Dth paid by Buyer and the price specified in the applicable Exhibit "A", if the replacement price is higher. In each instance, the defaulting Party will also pay the non-defaulting Party any extra transportation costs or other incidental charges or expenses incurred (net of any savings) in the replacement sale or purchase and will use good faith in procuring the best price available for such replacement sale or purchase, as applicable. The damages provided herein shall be Seller's and Buyer's sole remedy for failure of the other Party to buy or sell the daily purchase volume, except for liability for "imbalance charges" provided for in Article V hereof.

ARTICLE IV

DELIVERY POINT(S)

4.1 The Delivery Point(s) at which title shall pass from Seller to Buyer for all Gas delivered hereunder shall be as described on the then effective Exhibit(s) "A".

4.2 Title to the Gas sold and delivered hereunder shall pass to Buyer at the Delivery Point(s). As between the Parties hereto, Seller shall be in control and possession of the Gas and responsible for any loss and/or any damage or injury occurring until delivered to Buyer or third Parties for the account of Buyer at the Delivery Point(s), after which delivery, Buyer shall be deemed to be in exclusive control and possession thereof and responsible for any loss and/or injury or damage caused thereby. Seller shall be solely responsible for all arrangements and costs to deliver Gas to the Delivery Point(s), including gathering, processing, and transportation if required. Buyer will be solely responsible for all delivery arrangements and costs downstream of the Delivery Point(s) unless otherwise provided for in this Agreement.

Seller and Buyer, as each to each other, each assumes full responsibility and liability for the maintenance and operation of their, or their designee's, respective properties, if any, and shall indemnify and save harmless the other Party from all liability and expense on account of any and all damages, claims or actions, including injury to and death of persons, arising from any act or accident in connection with the installation, presence, maintenance and operation of the property and equipment of the indemnifying Party, or its designee.

ARTICLE V

NOMINATIONS, TRANSPORTATION AND PENALTIES

5.1 Subject to the other provisions of this Agreement and Exhibit "A" attached hereto, at least twenty-four (24) hours prior to the transporting pipeline's nomination deadline, Buyer shall nominate to Seller estimated daily quantities under each currently effective Exhibit "A" for each of the days in the month. Seller shall deliver or cause to be delivered to Buyer the nominated quantities up to the maximum quantity of Dth of Gas per day set forth on all currently effective Exhibit(s) "A".

5.2 Buyer shall have the right, but not the obligation, to purchase and receive from Seller additional quantities of Gas on any day which Seller determines, in its sole discretion, can be delivered in excess of the volume specified in Exhibit "A".

5.3 The rules, guidelines, and policies of the Transporter, as may be changed from time to time, shall define and set forth, among other things, the manner in which Gas purchased and sold under this Agreement is transported to Transporter at the Delivery Point(s) specified in Exhibit "A". Buyer and Seller recognize that the receipt and delivery on Transporter's pipeline facilities of Gas purchased and sold under this Agreement shall be subject to the operational procedures of Transporter. In the event Transporter elects to transport in accordance with the General Terms and Conditions of its then effective Federal Energy Regulatory Commission Gas Tariff which may allow Transporter to impose penalties for imbalances, Buyer and Seller shall be obligated to use their good faith efforts to avoid imposition of such penalties. If during any month Buyer or Seller receives an invoice from Transporter which includes an imbalance penalty charge, both Parties shall be obligated to use their good faith efforts to determine the validity as well as the cause of such imbalance penalty charge. If the imbalance penalty charge was imposed as a result of Buyer's actions (which shall include, but shall not be limited to, Buyer's failure to accept the Daily Purchase Quantity), then Buyer shall pay for such imbalance penalty charge. If the imbalance penalty charge was imposed as a result of Seller's actions (which shall include, but not be limited to, Seller's failure to deliver the Daily Purchase Quantity), then Seller shall pay such imbalance penalty charge.

ARTICLE VI

QUALITY

6.1 All Gas delivered by Seller hereunder shall be of such quality so as to meet the specifications of the Transporter receiving the Gas at the Delivery Point(s).

6.2 Buyer shall not be obligated to purchase any Natural Gas which is not merchantable or does not meet all specifications required by Transporter.

ARTICLE VII

DELIVERY PRESSURE

The Gas sold and purchased hereunder shall be delivered to Buyer at a pressure sufficient to effect delivery into the facilities of Transporter. Buyer shall not have an obligation to compress or to continue compression of the Gas delivered hereunder.

ARTICLE VIII

MEASUREMENT AND TESTS

The unit of measurement for Natural Gas delivered and sold by Seller hereunder shall be one million (1,000,000) British thermal units ("Dth"). Measurement and testing of Natural Gas volumes hereunder shall be in accordance with the transportation agreement(s) entered into with the Transporter, as amended from time to time.

ARTICLE IX

BILLINGS AND PAYMENTS

9.1 On or before the tenth (10th) day following the month of deliveries of Gas hereunder, Seller shall deliver to Buyer a statement for the preceding month properly identified as to the delivery location, showing the total volume of Gas delivered and the amount due. If the actual volume delivered is not available by the contractual billing date, billing will be prepared based on nominations. The estimated volume will then be corrected to the actual volume on the following month's billing or as soon thereafter as actual transport information is available.

Buyer shall remit payment to Seller by wire transfer to K N GAS MARKETING, INC. or as may be designated in writing from time to time, on the later of the twenty-fifth (25th) day of the month, or within fifteen (15) days after receipt of such statement whichever is later. Buyer shall be deemed to have received Seller's statement as follows: (a) if sent by facsimile, upon Seller's receipt of mechanical verification of facsimile transmission provided also all facsimile transmissions shall be followed by mailing an original invoice to be received within three (3) days; or (b) if sent by courier, one day mail delivery or express service, upon Buyer's actual receipt.

9.2 If any overcharge or undercharge in any form whatsoever shall at any time be found and the bill therefore has been paid, Seller shall refund the amount of the overcharge received by Seller and Buyer shall pay the amount of the undercharge within thirty (30) days after final determinations thereof without interest; however, no retroactive adjustment will be made for any overcharge or undercharge beyond a period of twenty-four (24) months from the date a discrepancy occurred. In the event a dispute arises as to the amount payable in any statement rendered, Buyer shall nevertheless pay the amount not in dispute to Seller pending resolution of the dispute. If it is determined that Buyer owes Seller the disputed amount, Buyer will pay Seller that amount.

9.3 Should Buyer fail to pay all of the amount of any undisputed bill when the same becomes due, Buyer shall pay Seller a late charge on the unpaid balance that shall accrue on each calendar day from the due date at a rate equal to the prime rate per annum as published by Texas Commerce Bank, Austin or its successor plus two percent (2%), provided that for any period that such late charge exceeds any applicable maximum rate permitted by law, the late charge shall equal said applicable maximum rate. The late charge provided for by this Paragraph shall be compounded monthly. If either principal or late charges are due, any payments thereafter received shall first be applied to the late charges due, then to the previously outstanding principal due and lastly, to the most current principal due. In addition to any other remedy it may have hereunder, Seller shall have the right to immediately suspend deliveries of Gas if any bill becomes delinquent and Buyer does not make payment to Seller within ten (10) days after receipt of written notice from Seller of such delinquency or if Buyer breaches any other term or condition of this Agreement and Buyer does not cure such breach within ten (10) days after receipt of written notice from Seller.

ARTICLE X

CREDIT

At any time during the term of this Agreement and any extensions hereof, should Buyer fail to make timely payments of undisputed statements or should Buyer become insolvent or file for bankruptcy protection, Seller may require Buyer to provide reasonable security, in the form of advance payment, deposits, or letter of guarantee as Seller may reasonably require to ensure Buyer's payment for Gas purchased hereunder. If Seller should become insolvent or file for bankruptcy protection, Buyer may terminate this Agreement upon ten (10) days prior written notice.

ARTICLE XI

ROYALTIES AND TAXES

Seller shall pay or cause to be paid all royalties and taxes lawfully levied on Seller, or otherwise to be borne contractually by Seller, and applicable to the Gas delivered hereunder prior to its delivery to Buyer. Buyer shall pay all taxes lawfully levied on Buyer applicable to such Gas after delivery to Buyer or Buyer's designee. In the event that Seller is legally obligated to collect such taxes from Buyer, Seller shall have full authority to do so. If Buyer is exempt from any such taxes, Buyer shall furnish Seller with a valid and properly completed resale or exemption certificate.

ARTICLE XII

NOTICES

Any notice, request, demand, statement, or payment provided for in this Agreement shall be in writing and deemed given when actually delivered or when deposited in the United States mail, postage prepaid, directed to the post office address of the Parties:

SELLER
Notices
K N Gas Marketing, Inc.
P.O. Box 281304
Lakewood, CO 80228-8304
Attn.: T.J. Carroll
Telephone: (303) 989-1999
Facsimile: (303) 763-3511

Payments
K N Gas Marketing, Inc.
c/o First Interstate Bank Denver, N.A.
ABA No. 102000018
633 17th Street
Denver, CO 80270
To: KNGM Acct. #7618794

BUYER:
Notices
Missouri Gas Energy
504 Lavaca, Suite 800
Austin, Texas 78701
Attn.: Gas Supply
Telephone: (512) 370-8275
Facsimile: (512) 476-4966

Invoices
Missouri Gas Energy
504 Lavaca, Suite 800
Austin, Texas 78701
Attn.: Gas Accounting
Telephone: (512) 370-8264
Facsimile: (512) 370-8346

or at such other address as either Party may from time to time designate as the address for such purposes by registered or certified letter addressed to the other Party.

ARTICLE XIII

WARRANTY OF TITLE AND RESPONSIBILITY

13.1 Seller warrants title to all Gas delivered by it, that it has the right to sell the same, and that such Gas is free from liens and adverse claims of every kind. Seller shall pay or cause to be paid all sums due on the gathering or handling of the Gas delivered by Seller. Seller shall indemnify and save Buyer harmless from and against all taxes, payments, liens or other charges applicable to said Gas arising prior to its delivery to Buyer or Buyer's designee.

13.2 The right to process Gas sold hereunder for the recovery of liquefiable hydrocarbons shall be retained by Seller, at Seller's sole option. Any such processing may be conducted by or on behalf of Seller at any point, including downstream of the Delivery Point(s), but prior to the Gas entering facilities owned by Buyer. Seller shall make all necessary arrangements for processing and will bear all costs of processing, including but not limited to shrinkage and fuel Gas. Seller shall own and have all right, title, and interest in and to any liquefiable hydrocarbons, helium, or other substances which result from processing. Seller will cause a thermally equivalent quantity of Gas to be returned to Buyer after any such processing.

ARTICLE XIV

FORCE MAJEURE

Except for Buyer's obligations to make payments hereunder, neither Party hereto shall be liable for any failure to perform the terms of the Agreement when such failure is due to Force Majeure as hereinafter defined. The term "Force Majeure" as employed in this Agreement shall mean acts of God, strikes, lockouts, or industrial disputes or disturbances, civil disturbances, arrests and restraint from rulers or people, interruptions or terminations by or as a result of government or court action or orders, or present and future valid orders of any regulatory body having jurisdiction, acts of the public enemy, wars, riots, blockades, insurrections, inability to secure or delay in securing labor or materials by reason of allocations promulgated by authorized governmental agencies, epidemics, landslides, lightning, earthquakes, fire, storm, floods, washouts, explosions, breakage or freezing of pipelines, inability to obtain easement or rights-of-way, the making of emergency repairs or alterations to lines of pipe or plants, failure or inability or any other cause, whether of the kind herein enumerated or otherwise not reasonably within the control of the Party claiming Force Majeure. The Force Majeure shall, so far as possible, be remedied with all reasonable dispatch. The settlement of strikes or lockouts or industrial disputes or disturbances shall be entirely within the discretion of the Party having the difficulty, and the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or industrial disputes or disturbances by acceding to the demands of any opposing Party therein when such course is inadvisable in the discretion of the Party having the difficulty. A decision by the Party claiming force majuere to close a facility due to business or economic conditions shall not fall within the meaning of Force Majeure.

ARTICLE XV

GOVERNMENTAL RULES, REGULATIONS AND AUTHORIZATION

15.1 This Agreement shall be subject to all valid applicable state, local and federal laws, orders, directives, rules and regulations of any governmental body, agency or official having jurisdiction over this Agreement and the sale and purchase of Gas hereunder.

15.2 If at any time during the term hereof, any governmental authority having jurisdiction over this Agreement and the sale and purchase of Gas hereunder shall take any action as to Seller or Buyer or any transporter whereby the sale, transportation, other handling (compression or treating), delivery, receipt and use of Gas as contemplated hereunder shall be proscribed or subjected to terms, conditions, regulations, restraints, or price or rate controls, ceilings or limits that in the sole judgment of Seller or Buyer are unduly or overly burdensome to that Party, such Party may at any time thereafter, upon six (6) months prior written notice to the other party, cancel and terminate this Agreement without further liability hereunder, except as to payments due at the time of such termination.

15.3 Buyer and Seller agree to file or have filed in a timely manner all applications, affidavits, statements and notices required for sale, transportation and delivery necessary of the Gas hereunder.

ARTICLE XVI

ASSIGNMENT

This Agreement shall extend to and be binding upon the Parties, their successors and assigns, but no transfer of whatsoever kind, wholly or partially, shall be made without the prior written consent of the non-transferring Party, except that Buyer may assign this Agreement to a financially capable affiliate without such consent, which consent shall not be reasonably withheld. Nothing herein contained shall in any way prevent either Party hereto from pledging or mortgaging all or any part of such Party's property as security under any mortgage, deed of trust, or other similar lien or from pledging this Agreement or any benefits accruing hereunder to the Party making the pledge, without the assumption of the obligations hereunder by the mortgagee, pledgee, or other grantee under such an instrument.

ARTICLE XVII

CONFIDENTIALITY

Both Buyer and Seller agree that the terms of this Agreement, including but not limited to the price paid for Gas, the identified transporting pipelines, the quantities of Gas purchased or sold and all other material terms of this Agreement shall be kept confidential by the Parties hereto, and shall not be disclosed to any third party other than an affiliate or owner except to the extent that any information must be disclosed to a third party for the purpose of effectuating transportation of the Gas delivered hereunder, or pursuant to any governmental, stock exchange or banking requirement.

ARTICLE XVIII

PRICE REDETERMINATION

18.1 Either Party hereto may initiate a price redetermination once every two years to establish a new price, or prices, for any of the quantities of gas sold and purchased under this Agreement. The Party desiring to initiate such redetermination shall so notify the other Party in writing at least nine (9) months prior to the end of the second, fourth, etc. Contract Years. The notice shall state the proposed new price and the facts, changed conditions, or reasons in support of the proposed new price.

18.2 Following timely notification, the Parties shall meet and negotiate in good faith and with due diligence in an effort to reach agreement on a redetermined price. If the Parties agree on a redetermined price, it shall be effective as of the first Day of the Month of the next Contract Year, and shall remain effective for the remainder of the term of this Agreement, or until changed again pursuant to this Agreement.

18.3 If the Parties have not reached agreement on a redetermined price within sixty (60) days of the notice date, either Party may terminate this Agreement effective the end of the current Contract Year by giving written notice to the other Party at least six (6) months prior to the end of such Contract Year. The prices set forth in this Agreement shall continue in effect for gas delivered after any such notice of termination is given. In the event the Parties have not reached agreement on a redetermined price and neither party elects to terminate this Agreement, then the prices set forth in this Agreement shall remain effective for the remainder of the Agreement, or until changed pursuant to this Agreement.

ARTICLE XIX

MISCELLANEOUS

19.1 No waiver by either Seller or Buyer of any default of the other under this Agreement shall operate as a waiver of any future default, whether of like or different character or nature.

19.2 This Agreement may be amended only by a written instrument executed by the Parties hereto and expressly stating that it is an amendment to this Agreement.

19.3 The headings used throughout this Agreement are inserted for reference purposes only, and are not to be construed or taken into account in interpreting the terms and provisions of any Article, nor to be deemed in any way to qualify, modify or explain the effects of any such term or provision.

19.4 As to all matters of performance, default, breach, enforcement, construction and interpretation, this Agreement and the rights and duties of the Parties hereunder shall be governed by the laws of the State of Texas.

19.5 Each Party and its duly authorized representatives shall have access to the accounting records and other documents maintained by the other Party which directly relate to the materials being delivered to the other Party under this contract. Each Party shall also have the right, at reasonable times, to audit such records and documents from time to time and at any time after the date of the contract until two years after payment for a particular delivery of Gas hereof has been made.

19.6 In the event of conflicting provisions between the body of this Agreement and the Exhibit(s) "A" to this Agreement, the provisions contained in the Exhibit(s) "A" shall govern.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the day and year hereinabove written.

ATTEST:

SELLER: **K N GAS MARKETING, INC.,**

____

By: S. C. Wesley Haun

Name: S. Wesley Haun

Title: Vice-President

ATTEST:

BUYER: **MISSOURI GAS ENERGY,**
a division of Southern Union Company

____

By: Michael T. Langston

Name: Michael T. Langston

Title: Vice President

EXHIBIT "A"

This Exhibit "A" is attached to and made part of the Gas Purchase Agreement dated the 1st day of December, 1994, by and between **MISSOURI GAS ENERGY** as Buyer and **K N Gas Marketing, Inc.** as Seller and provides for the sale and purchase of certain volumes of Natural Gas pursuant to the following terms:

Contract Quantity:

The Baseload, Variable and Peaking Quantity for the first Contract Year are as follows:

Buyer will notify Seller ninety (90) days in advance of each Contract Year of the daily Baseload Quantity of Gas, up to 22,500 Dth/d, to be purchased for each month of the Contract Year. The annual Baseload Quantity Gas will be approximately 4,000,000 Dth during each Contract Year.

Buyer may elect to schedule as much as 33% of the Baseload Quantity on a monthly basis as Variable Quantity, with exception of February and March (*), in which the Buyer may nominate as much as 7,425 Dth Variable Quantity. The Variable Quantity will be nominated by Buyer by the 20th day of each month up to the maximum Variable Quantity of Gas set forth in this Exhibit which Buyer desires to purchase in the following month. Once nominated the daily quantity will remain constant for the month.

Buyer may purchase a Peaking Quantity of up to 20,000 Dth/d for up to five (5) days per month during the months of December, January and February.

The daily Baseload for subsequent Contract Years shall be reflected in subsequent Exhibit(s) "A" to be executed by the Parties. Maximum daily Variable Quantity to be sold and purchased hereunder.

Month	**Baseload Dth/d**	**Variable Dth/d**	**Peaking Dth/d**
December 94	22,500	7,425	20,000
January 95	22,500	7,425	20,000
February 95	12,500	7,425*	20,000
March 95	7,500	7,425*	
April 95	7,700	2,541	
May 95	7,500	2,475	
June 95	7,700	2,541	
July 95	7,500	2,475	
August 95	7,500	2,475	
September 95	7,700	2,541	
October 95	9,100	3,003	
November 95	10,600	3,498	

Delivery Pressure: Adequate pressure to enter the Transporter's pipeline.

Delivery Point(s): Mutually agreeable points into the mainline of the Williams Natural Gas (WNG) or Panhandle Eastern Pipe Line systems as specified in writing between the Parties.

Term: December 1, 1994 through November 30, 1999.

Price: The price for Baseload Quantity will be equal to the index price for the Transporter's pipeline as published in first issue of the month of Gas flow in *Inside F.E.R.C.'s Gas Market Report* under "Prices of Spot Gas Delivered to Pipelines (TX,OK,KS)", plus:
$0.04 per Dth for the months of November through March, and $0.023 per Dth for the months of April through October.

The price for Variable Quantity will be equal to the index price for the Transporter's pipeline as published in first issue of the month of Gas flow in *Inside F.E.R.C.'s Gas Market Report* under "Prices of Spot Gas Delivered to Pipelines (TX,OK,KS)", plus:
$0.06 per Dth for the months of November through March, and $0.02 per Dth for the months of April through October.

The price for Peaking Quantity will be a commodity fee equal to the mid range price as reported in *Gas Daily* under "Daily Price Survey" for Gas delivered into the Transporter's pipeline on the same day Buyer receives Peaking Quantity service plus:
twelve percent (12%).

SELLER:	BUYER:
K N GAS MARKETING, INC.	**MISSOURI GAS ENERGY** a division of Southern Union Company
S. Wesley Haun Signature	Signature
S. Wesley Haun Print/Type Name	Michael T. Langston Vice President
Vice President Title	
November 1, 1994 Date	11-4-94 Date

SCHEDULE
MTL - 17

Missouri Gas Energy
Case No. Gr-96-450
Transportation Costs

Total KPOC Trans. Costs	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Total
Fixed Costs	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$11,955,046
Variable Costs	$66,018	$23,912	$0	$19,491	$129,580	$281,205	$324,365	$226,653	$92,926	$96,942	$107,998	$109,043	$1,478,133
Total Costs	$1,062,272	$1,020,166	$996,254	$1,015,745	$1,125,833	$1,277,459	$1,320,619	$1,222,906	$1,089,180	$1,093,196	$1,104,252	$1,105,297	$13,433,179
Refund per FERC Docket # PR94-3-000	($26,091)	($24,771)	($23,372)	($24,339)	($29,136)	($33,857)	($33,728)	($32,345)	($27,775)	($27,610)	($27,585)	($27,241)	($337,850)
Ref. per Kan. Corp. Com. # 97-78-523A	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($11,889)	($11,889)	($689,708)
Net Costs	$969,588	$928,802	$906,289	$924,813	$1,030,104	$1,177,009	$1,220,298	$1,123,968	$994,812	$998,993	$1,064,778	$1,066,167	$12,405,621
Total WNG Trans. Costs													
Fixed Costs	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$417,502	$417,502	$417,502	$417,502	$5,476,757
Variable Costs	$9,209	$4,809	$0	$4,399	$23,890	$43,381	$43,602	$38,947	$21,992	$22,250	$22,882	$22,280	$257,641
Incremental GSR Cost	$0	$0	$27,500	$0	$0	$27,500	$0	$0	$27,500	$0	$0	$27,500	$110,000
Total Costs	$485,052	$480,652	$503,344	$480,243	$499,734	$546,725	$519,445	$514,790	$466,995	$439,752	$440,385	$467,282	$5,844,399
Total PEPL Trans. Costs													
Fixed Costs	$568,494	$568,494	$568,494	$568,494	$560,617	$560,617	$560,617	$560,617	$560,617	$485,096	$483,243	$483,243	$6,528,642
Variable Costs	$14,386	$7,513	$0	$6,899	$37,469	$68,039	$68,668	$61,337	$33,731	$33,926	$34,891	$33,253	$400,114
Total Costs	$582,880	$576,006	$568,494	$575,393	$598,087	$628,656	$629,285	$621,954	$594,349	$519,022	$518,134	$516,495	$6,928,756
Variance KPOC vs WNG	$484,535	$448,149	$402,945	$444,571	$530,371	$630,284	$700,853	$609,178	$527,817	$559,241	$624,393	$598,885	$6,561,223
Variance KPOC vs PEPL	$386,708	$352,795	$337,795	$349,420	$432,018	$548,352	$591,013	$502,014	$400,463	$479,971	$546,644	$549,672	$5,476,866

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Missouri Gas Energy
Case No. Gr-96-450
Transportation Costs

KPOC Trans. Cost	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Total
MDQ	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	
Volumes	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Reservation Rates													
Kansok Rate	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	$4.5544	
Kansas Nat. Partnership Zone I	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	$7.9583	
Kansas Nat. Partnership Zone II	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	$8.4718	
Riverside Rate	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	$0.5180	
Commodity Volumes													
Kansok Rate	314,203	164,078	0	151,641	823,529	1,495,413	1,509,234	1,348,106	741,371	747,232	768,484	748,251	8,811,542
Kansas Nat. Partnership Zone I	305,169	159,360	0	147,281	799,850	1,452,415	1,468,838	1,309,344	720,054	725,748	746,387	726,737	8,561,181
Kansas Nat. Partnership Zone II	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,197	718,774	739,217	719,755	8,476,024
Riverside Rate	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Commodity Rates													
Kansok Rate	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	$0.0567	
Kansas Nat. Partnership Zone I	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	$0.0041	
Kansas Nat. Partnership Zone II	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	$0.0037	
Riverside Rate	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	$0.0049	
Fuel Volumes													
Kansok	7,478	3,905	0	3,609	19,600	35,591	35,920	32,085	17,646	17,784	18,290	17,808	
Kansas Nat. Partnership Zone I	1,556	813	0	751	4,079	7,407	7,476	6,678	3,672	3,701	3,807	3,706	
Kansas Nat. Partnership Zone II	2,932	1,531	0	1,415	4,548	6,550	14,082	12,579	6,917	6,972	7,170	6,982	
Fuel Rate	$2.1105	$2.0160	$1.5540	$1.5645	$2.3100	$3.0765	$3.8325	$2.6040	$1.4805	$1.5960	$1.8795	$2.0160	
Reservation Costs													
Kansok Rate	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$211,014	$2,532,174
Kansas Nat. Partnership Zone I	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$368,724	$4,424,687
Kansas Nat. Partnership Zone II	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$392,515	$4,710,185
Riverside Rate	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$24,000	$288,000
Total Reservation Costs	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$11,955,046
Commodity Costs													
Kansok Rate	$17,815	$9,303	$0	$8,598	$46,694	$84,790	$85,574	$76,438	$42,036	$42,368	$43,573	$42,426	$499,614
Kansas Nat. Partnership Zone I	$1,251	$653	$0	$604	$3,279	$5,955	$6,022	$5,368	$2,952	$2,976	$3,060	$2,980	$35,101
Kansas Nat. Partnership Zone II	$1,118	$584	$0	$540	$2,931	$5,322	$5,371	$4,798	$2,639	$2,659	$2,735	$2,663	$31,361
Riverside Rate	$1,481	$773	$0	$715	$3,882	$7,048	$7,114	$6,354	$3,494	$3,522	$3,622	$3,527	$41,532
Total Commodity Costs	$21,666	$11,314	$0	$10,456	$56,786	$103,116	$104,081	$92,958	$51,121	$51,525	$52,990	$51,595	$607,609
Fuel Costs													
Kansok Rate	$15,782	$7,872	$0	$5,646	$45,276	$109,496	$137,663	$83,549	$26,128	$28,383	$34,376	$35,901	$530,074
Kansas Nat. Partnership Zone I	$3,284	$1,639	$0	$1,175	$9,422	$22,788	$28,652	$17,390	$5,436	$5,907	$7,155	$7,471	$110,319
Kansas Nat. Partnership Zone II	$6,188	$3,086	$0	$2,214	$10,506	$20,151	$53,969	$32,756	$10,241	$11,127	$13,476	$14,076	$177,790
Total Commodity Costs	$25,254	$12,598	$0	$9,035	$65,204	$152,434	$220,284	$133,695	$41,805	$45,417	$55,007	$57,448	$818,183
Other Variable Costs													
Ad Valorem	$19,098	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$19,098
Excess Volumes	$0	$0	$0	$0	$7,589	$25,655	$0	$0	$0	$0	$0	$0	$33,244
Total Other Var. Costs	$19,098	$0	$0	$0	$7,589	$25,655	$0	$0	$0	$0	$0	$0	$52,342
Total KPOC Trans. Costs													
Fixed Costs	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$996,254	$11,955,046
Variable Costs	$66,018	$23,912	$0	$19,491	$129,580	$281,205	$324,365	$226,653	$92,926	$96,942	$107,998	$109,043	$1,478,133
Total Costs	$1,062,272	$1,020,166	$996,254	$1,015,745	$1,125,833	$1,277,459	$1,320,619	$1,222,906	$1,089,180	$1,093,196	$1,104,252	$1,105,297	$13,433,179
Refund per FERC Docket # PR94-3-000	($26,091)	($24,771)	($23,372)	($24,339)	($29,136)	($33,857)	($33,728)	($32,345)	($27,775)	($27,610)	($27,585)	($27,241)	($337,650)
Ref. per Kan. Corp. Com. # 97-78-523A	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($66,593)	($11,889)	($11,889)	($689,708)
Net Costs	$969,588	$928,802	$906,289	$924,813	$1,030,104	$1,177,009	$1,220,298	$1,123,968	$994,812	$998,993	$1,064,778	$1,066,167	$12,405,621

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KNP Refund Analysis

	As-Billed			Adjusted per RCG estimate (see Attachment A)		Estimation of Refund
Mth-Yr	Billing Determinants	Demand Rate	Total	Rate	Total	Total Under FERC Order less As-Billed
Mar-95	29,882	5.3326	$ 159,348.75	6.5210	$ 194,860.52	
	16,440	7.5653	$ 124,373.53	6.5210	$ 107,205.24	$ (17,168.29)
Apr-95	46,332	7.5653	$ 350,515.48	6.5210	$ 302,130.97	$ (48,384.51)
May-95	46,332	7.5653	$ 350,515.48	6.5210	$ 302,130.97	$ (48,384.51)
Jun-95	29,344	7.5653	$ 221,996.16	6.5210	$ 191,352.22	$ (30,643.94)
	16,988	8.4938	$ 144,292.67	6.5210	$ 110,778.75	$ (33,513.93)
Jul-95	46,332	8.4938	$ 393,534.74	6.5210	$ 302,130.97	$ (91,403.77)
Aug-95	46,332	8.4938	$ 393,534.74	6.5210	$ 302,130.97	$ (91,403.77)
Sep-95	46,332	8.4938	$ 393,534.74	6.5210	$ 302,130.97	$ (91,403.77)
Oct-95	46,332	8.4938	$ 393,534.74	6.5210	$ 302,130.97	$ (91,403.77)
Nov-95	13,900	8.4938	$ 118,063.82	6.5210	$ 90,641.90	$ (27,421.92)
	32,432	7.9583	$ 258,103.59	6.5210	$ 211,489.07	$ (46,614.51)
Dec-95	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Jan-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Feb-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Mar-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Apr-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
May-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Jun-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Jul-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Aug-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Sep-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Oct-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Nov-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Dec-96	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Jan-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Feb-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Mar-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Apr-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
May-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Jun-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Jul-97	46,332	7.9583	$ 368,723.96	6.5210	$ 302,130.97	$ (66,592.98)
Aug-97	46,332	6.7776	$ 314,019.76	6.5210	$ 302,130.97	$ (11,888.79)
Sep-97	46,332	6.7776	$ 314,019.76	6.5210	$ 302,130.97	$ (11,888.79)
Total			$ 11,303,867.09		$ 9,365,994.92	$ (1,973,383.94)

KANSAS PIPELINE OPERATING COMPANY
8325 LENEXA DRIVE/SUITE 400
LENEXA, KANSAS 66214
913 888-7139 · FAX: 913 599-2573

December 3, 1997

Michael Langston, Vice President
Missouri Gas Energy Division of
Southern Union Company
504 Lavaca Street, Suite 800
Austin, TX 78701

Re: Kansok Docket No. PR94-3-002

Dear Mr. Langston:

Pursuant to a FERC Order in the above-referenced docket and the Kansok Refund Report filed by Kansok, Missouri Gas Energy's refund amount was $1,293,494.93. In a letter dated November 17, 1997, you notified Mid-Kansas Partnership that you were withholding said amount from payment out of Mid-Kansas' October 1997 invoice.

Therefore, Kansok hereby agrees to your retaining the monies you withheld as the Kansok refund arising from the above-referenced docket. Your letter of November 17, 1997 serves as your acknowledgement that the retention of the $1,293,494.93 satisfies in full Kansok's refund obligation under said docket.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Greg Oetting
Controller

mss

KANSOK PARTNERSHIP
DOCKET No. PR94-3-OOO
REFUND REPORT

CUSTOMER MID-KANSAS PARTNERSHIP
CONTRACT Transportation - Kansas City, MO
MDQ 46,332

	RESERVATION			FIRM USAGE				
MONTH OF SERVICE	AS BILLED	REVISED BILLING	NET REFUND	AS BILLED	REVISED BILLING	NET REFUND	TOTAL INTEREST	TOTAL REFUND
Dec-93	211,014.46	190,790.54	20,223.92	36,224.33	31,816.07	4,408.26	8,553.93	33,186.10
Jan-94	211,014.46	190,790.54	20,223.92	39,684.05	34,854.77	4,829.28	8,538.80	33,591.99
Feb-94	211,014.46	190,790.54	20,223.92	41,078.07	36,079.15	4,998.92	8,428.58	33,651.42
Mar-94	211,014.46	190,790.54	20,223.92	30,027.53	26,373.38	3,654.14	7,837.53	31,716.59
Apr-94	211,014.46	190,790.54	20,223.92	14,005.81	12,301.40	1,704.41	7,044.04	28,972.37
May-94	211,014.46	190,790.54	20,223.92	7,333.58	6,441.13	892.45	6,635.38	27,751.74
Jun-94	211,014.46	190,790.54	20,223.92	7,274.55	6,389.29	885.26	6,487.56	27,596.74
Jul-94	211,014.46	190,790.54	20,223.92	5,911.66	5,192.25	719.41	6,290.05	27,233.38
Aug-94	211,014.46	190,790.54	20,223.92	6,343.99	5,571.97	772.02	6,163.85	27,159.79
Sep-94	211,014.46	190,790.54	20,223.92	4,915.15	4,317.01	598.14	5,977.07	26,799.12
Oct-94	211,014.46	190,790.54	20,223.92	11,329.79	9,951.04	1,378.76	6,022.44	27,625.12
Nov-94	211,014.46	190,790.54	20,223.92	24,513.90	21,530.73	2,983.17	6,289.75	29,496.85
Dec-94	211,014.46	190,790.54	20,223.92	35,945.42	31,571.11	4,374.31	6,455.79	31,054.02
Jan-95	211,014.46	190,790.54	20,223.92	50,754.44	44,577.97	6,176.47	6,748.98	33,149.37
Feb-95	211,014.46	190,790.54	20,223.92	42,656.77	37,465.74	5,191.04	6,282.46	31,697.41
Mar-95	211,014.46	190,790.54	20,223.92	20,799.49	18,268.33	2,531.15	5,423.84	28,178.91
Apr-95	211,014.46	190,790.54	20,223.92	17,149.88	15,062.86	2,087.02	5,115.25	27,426.19
May-95	211,014.46	190,790.54	20,223.92	8,044.82	7,065.82	979.00	4,668.55	25,871.47
Jun-95	211,014.46	190,790.54	20,223.92	15,604.35	13,705.41	1,898.94	4,674.45	26,797.31
Jul-95	211,014.46	190,790.54	20,223.92	8,757.60	7,691.86	1,065.74	4,320.94	25,610.60
Aug-95	211,014.46	190,790.54	20,223.92	6,414.70	5,634.07	780.62	4,025.47	25,030.01
Sep-95	211,014.46	190,790.54	20,223.92	304.42	267.38	37.05	3,766.22	24,027.19
Oct-95	211,014.46	190,790.54	20,223.92	27,106.51	23,807.84	3,298.68	4,150.20	27,672.80
Nov-95	211,014.46	190,790.54	20,223.92	39,549.27	34,736.40	4,812.87	4,202.25	29,239.04
Dec-95	211,014.46	190,790.54	20,223.92	70,332.83	61,773.81	8,559.02	4,581.10	33,364.04
Jan-96	211,014.46	190,790.54	20,223.92	70,376.66	61,812.31	8,564.36	4,334.66	33,122.93
Feb-96	211,014.46	190,790.54	20,223.92	68,505.56	60,168.91	8,336.66	4,055.04	32,615.62
Mar-96	211,014.46	190,790.54	20,223.92	47,906.06	42,076.22	5,829.84	3,491.25	29,545.01
Apr-96	211,014.46	190,790.54	20,223.92	25,128.87	22,070.86	3,058.01	2,948.66	26,230.59
May-96	211,014.46	190,790.54	20,223.92	23,023.89	20,222.04	2,801.86	2,740.89	25,766.66
Jun-96	211,014.46	190,790.54	20,223.92	18,283.14	16,058.21	2,224.93	2,483.84	24,932.69
Jul-96	211,014.46	190,790.54	20,223.92	17,815.31	15,647.31	2,168.00	2,320.38	24,712.30
Aug-96	211,014.46	190,790.54	20,223.92	9,303.22	8,171.08	1,132.14	2,047.08	23,403.14
Sep-96	211,014.46	190,790.54	20,223.92	-	-	-	1,788.73	22,012.64
Oct-96	211,014.46	190,790.54	20,223.92	8,598.04	7,551.72	1,046.32	1,719.32	22,989.56
Nov-96	211,014.46	190,790.54	20,223.92	46,694.09	41,011.74	5,682.35	1,890.45	27,796.72
Dec-96	211,014.46	190,790.54	20,223.92	84,789.92	74,471.57	10,318.35	1,985.45	32,527.72
Jan-97	211,014.46	190,790.54	20,223.92	85,573.57	75,159.85	10,413.71	1,770.47	32,408.10
Feb-97	211,014.46	190,790.54	20,223.92	76,437.61	67,135.68	9,301.93	1,507.27	31,033.12
Mar-97	211,014.46	190,790.54	20,223.92	42,035.74	36,920.28	5,115.46	1,131.75	26,471.13
Apr-97	211,014.46	190,790.54	20,223.92	42,368.05	37,212.15	5,155.90	936.08	26,315.90
May-97	211,014.46	190,790.54	20,223.92	43,573.04	38,270.50	5,302.54	772.97	26,299.42
Jun-97	211,014.46	190,790.54	20,223.92	42,425.83	37,262.90	5,162.93	577.02	25,963.87
Jul-97	211,014.46	190,790.54	20,223.92	38,380.00	33,709.42	4,670.58	383.67	25,278.17
Aug-97	211,014.46	190,790.54	20,223.92	38,318.82	33,655.69	4,663.14	448.17	25,335.23
Sep-97	211,014.46	190,790.54	20,223.92	37,130.00	32,611.53	4,518.47	93.47	24,835.85
TOTAL	9,706,665.20	8,776,364.97	930,300.23	1,438,730.35	1,263,646.76	175,083.69	188,111.12	1,293,494.93

MTL-17 (5 of 9)

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MID-KANSAS PARTNERSHIP
8325 LENEXA DRIVE, SUITE 400
LENEXA, KS 66214
913-888-7139 FAX: 913-599-5645

file contract file

May 8, 1997

Mr. Michael Langston, Vice President
Missouri Gas Energy
Division of Southern Union Company
504 Lavaca Street, Suite 800
Austin, TX 78701

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Re: KansOk Docket No. PR94-3-002

Dear Mr. Langston:

Pursuant to an April 23, 1998 Order in the above referenced docket and KansOk's May 8, 1998 Refund Report, Mid-Kansas Partnership (MKP) has received from KansOk a refund of $74,786.87. This refund relates to transportation services provided to Mid-Kansas by KansOk on behalf of Missouri Gas Energy.

Enclosed is a check for $74,786.87. By issuance of this check, MKP has satisfied in full all obligations to flow through KansOk refunds under said docket.

Sincerely,

Greg Oetting
Controller

Enclosure

KANSOK PARTNERSHIP
DOCKET No. RP94-3-000
REFUND REPORT

CUSTOMER MID-KANSAS PARTNERSHIP
CONTRACT Transportation - Kansas City, MO

MONTH OF SERVICE	MDQ	RESERVATION AS BILLED	RESERVATION REVISED BILLING	RESERVATION NET REFUND	FIRM USAGE AS BILLED	FIRM USAGE REVISED BILLING	FIRM USAGE NET REFUND	TOTAL INTEREST	TOTAL REFUND
Dec-93	46,332	190,790.54	189,595.18	1,195.36	31,816.07	31,816.07	-	486.37	1,681.73
Jan-94	46,332	190,790.54	189,595.18	1,195.36	34,854.77	34,854.77	-	478.33	1,673.69
Feb-94	46,332	190,790.54	189,595.18	1,195.36	36,079.15	36,079.15	-	470.01	1,665.37
Mar-94	46,332	190,790.54	189,595.18	1,195.36	28,373.38	28,373.38	-	462.61	1,657.97
Apr-94	46,332	190,790.54	189,595.18	1,195.36	12,301.40	12,301.40	-	453.87	1,649.23
May-94	46,332	190,790.54	189,595.18	1,195.36	8,441.13	8,441.13	-	445.13	1,640.49
Jun-94	46,332	190,790.54	189,595.18	1,195.36	6,369.29	6,369.29	-	436.62	1,631.98
Jul-94	46,332	190,790.54	189,595.18	1,195.36	5,182.25	5,182.25	-	427.79	1,623.15
Aug-94	46,332	190,790.54	189,595.18	1,195.36	5,671.97	5,671.97	-	419.34	1,614.70
Sep-94	46,332	190,790.54	189,595.18	1,195.36	4,317.01	4,317.01	-	411.21	1,606.57
Oct-94	46,332	190,790.54	189,595.18	1,195.36	9,951.04	8,951.04	-	400.88	1,596.24
Nov-94	46,332	190,790.54	189,595.18	1,195.36	21,530.73	21,630.73	-	391.20	1,586.56
Dec-94	46,332	190,790.54	189,595.18	1,195.36	31,571.11	31,571.11	-	380.49	1,575.85
Jan-95	46,332	190,790.54	189,595.18	1,195.36	44,577.97	44,577.97	-	371.99	1,567.35
Feb-95	46,332	190,790.54	189,595.18	1,195.36	37,465.74	37,465.74	-	361.45	1,556.81
Mar-95	46,332	190,790.54	189,595.18	1,195.36	18,268.33	18,256.33	-	350.42	1,545.78
Apr-95	46,332	190,790.54	189,595.18	1,195.36	15,062.66	15,062.88	-	339.08	1,534.44
May-95	46,332	190,790.54	189,595.18	1,195.36	7,065.82	7,065.82	-	327.74	1,523.10
Jun-95	46,332	190,790.54	189,595.18	1,195.36	13,705.41	13,705.41	-	316.64	1,512.00
Jul-95	46,332	190,790.54	189,595.18	1,195.36	7,691.86	7,691.66	-	306.24	1,501.60
Aug-95	46,332	190,790.54	189,595.18	1,195.36	5,634.07	5,634.07	-	292.11	1,487.47
Sep-95	46,332	190,790.54	189,595.18	1,195.36	287.38	287.38	-	284.92	1,480.28
Oct-95	46,332	190,790.54	189,595.18	1,195.36	23,807.64	23,807.64	-	273.13	1,469.49
Nov-95	46,332	190,790.54	189,595.18	1,195.36	34,736.40	34,736.40	-	262.40	1,457.76
Dec-95	46,332	190,790.54	189,595.18	1,195.36	61,773.81	61,773.81	-	251.56	1,446.92
Jan-96	46,332	190,790.54	189,595.18	1,195.36	61,812.31	61,812.31	-	240.84	1,436.20
Feb-96	46,332	190,790.54	189,595.18	1,195.36	60,168.91	60,168.91	-	230.12	1,425.48
Mar-96	46,332	190,790.54	189,595.18	1,195.36	42,078.22	42,078.22	-	220.16	1,415.52
Apr-96	46,332	190,790.54	189,595.18	1,195.36	22,070.86	22,070.88	-	210.98	1,406.34
May-96	46,332	190,790.54	189,595.18	1,195.36	20,222.04	20,222.04	-	201.48	1,396.84
Jun-96	46,332	190,790.54	189,595.18	1,195.36	16,058.21	16,058.21	-	191.00	1,386.36
Jul-96	46,332	190,790.54	189,595.18	1,195.36	15,647.31	15,647.31	-	182.24	1,377.60
Aug-96	46,332	190,790.54	189,595.18	1,195.36	8,171.08	8,171.08	-	172.54	1,367.90
Sep-96	46,332	190,790.54	189,595.18	1,195.36	-	-	-	163.29	1,358.65
Oct-96	46,332	190,790.54	189,595.18	1,195.36	7,551.72	7,551.72	-	153.79	1,349.15
Nov-96	46,332	190,790.54	189,595.18	1,195.36	41,011.74	41,011.74	-	143.98	1,339.34
Dec-96	46,332	190,790.54	189,595.18	1,195.36	74,471.57	74,471.57	-	134.04	1,329.40
Jan-97	46,332	190,790.54	189,595.18	1,195.36	76,159.65	75,159.85	-	125.02	1,320.38
Feb-97	46,332	190,790.54	189,595.18	1,195.36	67,135.68	67,135.68	-	116.61	1,311.97
Mar-97	46,332	190,790.54	189,595.18	1,195.36	38,920.28	38,920.28	-	108.64	1,304.00
Apr-97	46,332	190,790.54	189,595.18	1,195.36	37,212.15	37,212.15	-	98.93	1,294.29
May-97	46,332	190,790.54	189,595.18	1,195.36	38,270.60	38,270.50	-	90.69	1,286.05
Jun-97	46,332	190,790.54	189,595.18	1,195.36	37,262.90	37,262.90	-	81.26	1,276.62
Jul-97	46,332	190,790.54	189,595.18	1,195.36	33,708.42	33,709.42	-	72.13	1,267.49
Aug-97	46,332	190,790.54	189,595.18	1,195.36	33,652.75	33,652.75	-	65.94	1,261.30
Sep-97	46,332	190,790.54	189,595.18	1,195.36	32,609.89	32,609.99	-	56.33	1,251.70
Oct-97	46,332	190,790.54	189,595.18	1,195.36	17,764.81	17,764.81	-	49.32	1,244.68
Nov-97	46,332	190,790.54	189,595.18	1,195.36	38,960.86	38,960.86	-	40.60	1,235.96
Dec-97	46,332	190,790.54	189,595.18	1,195.36	29,648.73	29,648.73	-	31.98	1,227.34
Jan-98	46,332	190,790.54	189,595.18	1,195.36	52,803.54	52,803.54	-	22.28	1,217.64
Feb-98	46,332	190,790.54	189,595.18	1,195.36	67,162.97	67,162.97	-	14.59	1,209.96
Mar-98	46,332	190,790.54	189,595.18	1,195.36	60,631.10	60,631.10	-	6.93	1,201.29
TOTAL		9,921,108.10	9,858,949.38	62,158.74	1,530,814.31	1,530,814.31	-	12,828.13	74,786.87

15,915.35

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PEPL Trans. Cost	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Total
MDQ	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	
Volumes	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Reservation Rates													
Field Zone	$6.8200	$6.8200	$6.8200	$6.8200	$6.6500	$6.6500	$6.6500	$6.6500	$6.6500	$5.3700	$5.3500	$5.3500	
Market Zone	$3.6200	$3.6200	$3.6200	$3.6200	$3.6200	$3.6200	$3.6200	$3.6200	$3.6200	$3.3000	$3.2800	$3.2800	
Market Mileage Charge	$1.8300	$1.8300	$1.8300	$1.8300	$1.8300	$1.8300	$1.8300	$1.8300	$1.8300	$1.8000	$1.8000	$1.8000	
Commodity Volumes													
Field Zone	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Market Zone	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Commodity Rates													
Field Zone	$0.0196	$0.0196	$0.0196	$0.0196	$0.0196	$0.0196	$0.0196	$0.0196	$0.0196	$0.0195	$0.0195	$0.0195	
Market Zone	$0.0205	$0.0205	$0.0205	$0.0202	$0.0202	$0.0202	$0.0202	$0.0202	$0.0202	$0.0202	$0.0202	$0.0192	
Market Mileage Charge	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	$0.0075	
Reservation Costs													
Field Zone	$315,984	$315,984	$315,984	$315,984	$308,108	$308,108	$308,108	$308,108	$308,108	$248,803	$247,876	$247,876	$3,549,031
Market Zone	$167,722	$167,722	$167,722	$167,722	$167,722	$167,722	$167,722	$167,722	$167,722	$152,896	$151,969	$151,969	$1,966,330
Market Mileage Charge	$84,788	$84,788	$84,788	$84,788	$84,788	$84,788	$84,788	$84,788	$84,788	$83,398	$83,398	$83,398	$1,013,281
Total Reservation Costs	$568,494	$568,494	$568,494	$568,494	$560,617	$560,617	$560,617	$560,617	$560,617	$485,096	$483,243	$483,243	$6,528,642
Commodity Costs													
Field Zone	$5,924	$3,093	$0	$2,859	$15,526	$28,194	$28,454	$25,417	$13,977	$14,016	$14,415	$14,035	$165,911
Market Zone	$6,196	$3,235	$0	$2,946	$16,002	$29,057	$29,325	$26,195	$14,405	$14,519	$14,932	$13,819	$170,633
Market Mileage Charge	$2,267	$1,184	$0	$1,094	$5,941	$10,788	$10,888	$9,726	$5,349	$5,391	$5,544	$5,398	$63,570
Total Commodity Costs	$14,386	$7,513	$0	$6,899	$37,469	$68,039	$68,668	$61,337	$33,731	$33,926	$34,891	$33,253	$400,114
Total PEPL Trans. Costs													
Fixed Costs	$568,494	$568,494	$568,494	$568,494	$560,617	$560,617	$560,617	$560,617	$560,617	$485,096	$483,243	$483,243	$6,528,642
Variable Costs	$14,386	$7,513	$0	$6,899	$37,469	$68,039	$68,668	$61,337	$33,731	$33,926	$34,891	$33,253	$400,114
Total Costs	$582,880	$576,006	$568,494	$575,393	$598,087	$628,656	$629,285	$621,954	$594,349	$519,022	$518,134	$516,495	$6,928,756

WNG Trans. Cost	Jul-96	Aug-96	Sep-96	Oct-96	Nov-96	Dec-96	Jan-97	Feb-97	Mar-97	Apr-97	May-97	Jun-97	Total
MDQ	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	46,332	
Volumes	302,237	157,829	0	145,866	792,166	1,438,462	1,451,756	1,296,765	713,137	718,774	739,217	719,755	8,475,964
Reservation Rates													
Production Zone	$6.9778	$6.9778	$6.9778	$6.9778	$6.9778	$6.9778	$6.9778	$6.9778	$5.8464	$5.8464	$5.8464	$5.8464	
Market Zone	$3.2925	$3.2925	$3.2925	$3.2925	$3.2925	$3.2925	$3.2925	$3.2925	$3.1647	$3.1647	$3.1647	$3.1647	
Commodity Volumes													
Production Zone	316,159	165,099	0	152,491	828,145	1,503,796	1,508,894	1,347,803	741,205	749,876	771,203	750,899	8,835,570
Market Zone	307,370	160,510	0	148,343	805,620	1,462,892	1,471,474	1,314,378	722,823	731,279	752,078	732,277	8,609,044
Commodity Rates													
Production Zone	$0.0091	$0.0091	$0.0091	$0.0091	$0.0091	$0.0091	$0.0091	$0.0091	$0.0128	$0.0128	$0.0128	$0.0128	
Market Zone	$0.0206	$0.0206	$0.0206	$0.0203	$0.0203	$0.0203	$0.0203	$0.0203	$0.0173	$0.0173	$0.0173	$0.0173	
Reservation Costs													
Production Zone	$323,295	$323,295	$323,295	$323,295	$323,295	$323,295	$323,295	$323,295	$270,875	$270,875	$270,875	$270,875	$3,669,865
Market Zone	$152,548	$152,548	$152,548	$152,548	$152,548	$152,548	$152,548	$152,548	$146,627	$146,627	$146,627	$146,627	$1,806,892
Total Reservation Costs	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$417,502	$417,502	$417,502	$417,502	$5,476,757
Commodity Costs													
Production Zone	$2,877	$1,502	$0	$1,388	$7,536	$13,685	$13,731	$12,265	$9,487	$9,598	$9,871	$9,612	$91,552
Market Zone	$6,332	$3,307	$0	$3,011	$16,354	$29,697	$29,871	$26,682	$12,505	$12,651	$13,011	$12,668	$166,089
Total Commodity Costs	$9,209	$4,809	$0	$4,399	$23,890	$43,381	$43,602	$38,947	$21,992	$22,250	$22,882	$22,280	$257,641
Total WNG Trans. Costs													
Fixed Costs	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$475,844	$417,502	$417,502	$417,502	$417,502	$5,476,757
Variable Costs	$9,209	$4,809	$0	$4,399	$23,890	$43,381	$43,602	$38,947	$21,992	$22,250	$22,882	$22,280	$257,641
Incremental GSR Cost	$0	$0	$27,500	$0	$0	$27,500	$0	$0	$27,500	$0	$0	$27,500	$110,000
Total Costs	$485,052	$480,652	$503,344	$480,243	$499,734	$546,725	$519,445	$514,790	$466,995	$439,752	$440,385	$467,282	$5,844,399

SCHEDULE
MTL - 18

WILLIAMS NATURAL GAS COMPANY
ONE OF THE WILLIAMS COMPANIES, INC.

November 12, 1996

Office of the Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D. C. 20426

Re: Williams Natural Gas Company
Docket Nos. RP96-400-000 and RP89-183-064

Dear Ms. Cashell:

Williams Natural Gas Company (WNG) submits herewith for filing one original and five copies of Second Substitute Second Revised Sheet Nos. 8C and 8D to become part of its FERC Gas Tariff, Second Revised Volume No. 1, with the proposed effective date of November 1, 1996.

WNG respectfully requests that the Commission grant any waivers necessary to make the tendered sheets effective as proposed.

STATEMENT OF NATURE REASONS AND BASIS

On September 30, 1996, as amended on October 15, 1996, WNG filed its fourth quarter report of take-or-pay buyout, buydown and contract reformation costs and gas supply related transition costs. Subsequent to the September 30 and October 15 filings, a contract was entered into with Greeley Gas Company which is retroactive to October 1, 1996. Revised Schedule 4 is being filed to reflect the revised MDTQ for Greeley Gas and the revised allocation to each Shipper. All other aspects of WNG's September 30 filing, as revised October 15, are unchanged.

TARIFF SHEETS

Second Substitute Second Revised Sheet Nos. 8C and 8D are being filed to reflect the revised direct bill amounts allocated to each customer.

In accordance with submission procedures for electronic filings in Commission Order No. 493, et al., WNG hereby submits a diskette along with the corresponding hard copies. Such hard copies include the same information as contained on the diskette. The undersigned has read and knows the contents of the paper copies and electronic media and the contents as stated in the paper copies are true to his best knowledge and belief. In accordance with Commission Order No. 568, a marked version of proposed rate schedule and tariff changes is being filed.

One Williams Center • P. O. Box 3288 • Tulsa, Oklahoma 74101
(918) 588-3900

GENERAL

As required by Section 154.7(a)(9) of the Commission's regulations, WNG hereby moves to place the proposed tariff sheets into effect at the end of any applicable suspension period that may be established herein.

Copies of this filing are being served on all participants listed on the service lists maintained by the Commission in the dockets referenced above and on all of WNG's jurisdictional customers and interested state commissions.

Correspondence and communications concerning this filing should be addressed to the following persons:

Richard N. Ficken, Vice President
Tim Thuston, Director
Williams Natural Gas Company
Post Office Box 3288
Tulsa, Oklahoma 74101
(918) 588-2966

Gregory Grady
Douglas O. Waikart
Wright & Talisman, P.C.
1200 G Street, N.W.
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(202) 393-1200

Stephen K. Schroeder, General Counsel
John H. Cary, Senior Counsel
Tim L. Thompson, Attorney
The Williams Companies, Inc
Post Office Box 2400
Tulsa, Oklahoma 74102
(918) 588-4212

Respectfully submitted,

Bart W. Wherritt, Manager
Certificates and Tariffs

fcgsr109.6r2

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Williams Natural Gas Company)

Docket Nos. RP96-400-
and RP89-183-

NOTICE OF PROPOSED CHANGES IN
FERC GAS TARIFF

Take notice that on November 12, 1996, Williams Natural Gas Company (WNG), tendered for filing to become part of its FERC Gas Tariff, Second Revised Volume No. 1, Second Substitute Second Revised Sheet Nos. 8C and 8D, with the proposed effective date of November 1, 1996.

WNG states that on September 30, 1996, as amended on October 15, 1996, it filed its fourth quarter report of take-or-pay buyout, buydown and contract reformation costs and gas supply related transition costs. Subsequent to the September 30 and October 15 filings, a contract was entered into with Greeley Gas Company which is retroactive to October 1, 1996. Revised Schedule 4 is being filed to reflect the revised MDTQ for Greeley Gas and the revised allocation to each Shipper. All other aspects of WNG's September 30 filing, as revised October 15, are unchanged.

WNG states that a copy of its filing was served on all of WNG's jurisdictional customers and interested state commissions.

Any person desiring to protest this filing should file a protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Section 385.211 of the Commission's Rules and Regulations. All such protests must be filed as provided in Section 154.210 of the Commission'a Regulations. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceedings. Copies of this filing are on file with the Commission and are available for public inspection in the Public Reference Room.

Lois D. Cashell
Secretary

RECOVERY OF GAS SUPPLY REALIGNMENT COSTS
PURSUANT TO ARTICLE 14
OF THE GENERAL TERMS AND CONDITIONS

CUSTOMER	RP96-173 3-31-96	RP96-303 7-31-96	RP96-400 10-31-96
Ag Processing, Inc.	$ 778	$ 622	$ 613
Altamont Municipal Gas Auth.	1,800	1,439	1,420
Americus Gas Company	674	539	531
Argonia, Ks, City of	401	321	395
Arkansas Louisiana Gas Co.	2,642	2,112	2,084
Associated Purchase Serv, Inc	3,370	2,694	2,690
Auburn, Ks, City of	2,603	2,080	2,052
Avant Util. Auth.	224	179	176
Barrett Resources Corp.	12,858	4,111	6,084
Bayer Corporation	1,035	827	816
Billings Public Works	391	312	308
Burlingame, Ks, City of	1,776	1,419	1,400
Burlington, Ok, City of	220	176	173
Cassoday, Ks, City of	224	179	176
Certainteed Corp.	3,630	2,901	2,862
City Utilities of Springfield	138,019	110,320	108,836
Cleveland Municipal Auth.	2,572	2,056	2,028
Conagra, Inc.		2,073	2,045
Conoco, Inc	2,069	1,654	1,631
Continental Nat Gas, Inc.	3,258	2,604	2,569
Copan Public Works Auth.	540	432	426
Danville, Ks, City of	49	39	39
Denison, Ks, City of	230	184	182
Eckert Gas Company	84	67	66
Energy Source Inc.	19,443	15,541	15,332
Excel Corporation			4,056
Flint Hills Gas Co.	82	66	65
Ford Motor Co.	18,103	14,470	14,275
Ford, Ks, City of	188	150	148
Freedom Municipal Trust Auth.	292	233	230
Gate, Ok, Town of	141	113	112
General Motors Corp.	10,344	8,268	8,157
GPM Gas Corp.	6,191	4,949	4,882
Granby, Mo, City of	1,738	1,390	1,371
Greeley Gas Company	31,620	25,274	30,486
Grove Municipal Serv. Auth.	11,394	11,635	11,479
Hamilton, Ks, City of	280	224	302
Howard, Ks, City of	1,103	882	1,197
Iola, Ks, City of	8,817	7,047	6,953
Jane Phillips Medical Center	514	411	406
Kansas Municipal Gas Assoc.	25,502	20,384	20,110

Williams Natural Gas Company
FERC Gas Tariff
Second Revised Volume No. 1

2 Substitute Second Revised Sheet No. 8D
Superseding
First Revised Sheet No. 8D

RECOVERY OF GAS SUPPLY REALIGNMENT COSTS
PURSUANT TO ARTICLE 14
OF THE GENERAL TERMS AND CONDITIONS

CUSTOMER	RP96-173 3-31-96	RP96-303 7-31-96	RP96-400 10-31-96
Kechi, Ks, City of	$ 514	$ 411	$ 406
Lawrence Paper Co.	673	538	530
LeAnn Gas Company	3,712	2,967	2,927
Lebo, Kansas, City of	603	482	654
Liberal, Mo, City of	502	401	395
Mannford Public Works Auth.	1,722	1,376	1,470
McLouth, Ks, City of	874	699	948
Missouri Gas Energy	1,422,535	1,137,046	1,121,759
Mountain Iron & Supply	10,289	8,224	15,374
Mulberry, Ks, City of	502	401	395
Nebraska Public Gas Agency	11,788	9,423	9,296
Nelagoney Rural Gas	27	22	21
Neodesha, Ks, City of	5,205	4,160	5,642
Oilton, Ok, City of	39	31	30
Olivet, Ks, City of	66	52	52
Orlando, Ok, Town of	145	116	115
Oronogo, Mo, City of	253	202	200
Peoples Natural Gas Co.	606	484	478
Plattsburg, Mo, City of	3,122	2,495	2,462
Public Service Co. of CO.	190	152	150
Questar Energy Trading Company			4,056
Reading, Ks, City of	235	188	256
Rural Water - Grady Co.	116	92	91
Severy Gas Co., Inc.	258	240	237
Tartan Energy Co.	19,416	15,519	15,311
Union Pacific Fuels, Inc.	48,971	39,143	38,616
United Cities Gas Co.	193,900	154,986	152,903
Universal Resources Corp.	6,429	5,139	5,070
US Gypsum	7,314	5,846	5,767
Utilicorp United Inc.	144,108	120,799	139,126
Viola, Ks, City of	108	86	85
Vulcan Chemicals	12,858	10,278	10,140
Wakita Utilities Authority	453	362	357
Wann Public Works Authority	150	120	119
Westar Gas Marketing	42,734	34,158	31,052
Western Resources, Inc.	1,158,171	925,737	913,290
Williams Energy Serv. Co.	55,281	44,187	43,593
	$3,469,068	$2,776,939	$2,782,536

Issued By: Richard N.Ficken, Vice President
Issued on: November 12th, 1996

Effective: November 1st, 1996

TF01003575102596WILLIAMS NATURAL GAS COMPANY
TF02001002*Second Revised Volume No. 1*
TF03000008C0020003P1262 Substitute Second Revised Sheet No. 8C
TF04 First Revised Sheet No. 8C
TF05*Richard N. Ficken, Vice President*
TF06111296 110196

RECOVERY OF GAS SUPPLY REALIGNMENT COSTS
PURSUANT TO ARTICLE 14
OF THE GENERAL TERMS AND CONDITIONS

CUSTOMER	RP96-173 3-31-96	RP96-303 7-31-96	RP96-400 10-31-96
Ag Processing, Inc.	$ 778	$ 622	$ 61~~5~~3
Altamont Municipal Gas Auth.	1,800	1,439	1,42~~2~~0
Americus Gas Company	674	539	53~~2~~1
Argonia, Ks, City of	401	321	39~~6~~5
Arkansas Louisiana Gas Co.	2,642	2,112	2,08~~8~~4
Associated Purchase Serv, Inc	3.370	2,694	2,69~~5~~0
Auburn, Ks, City of	2,603	2,080	2,05~~6~~2
Avant Util. Auth.	224	179	17~~7~~6
Barrett Resources Corp.	12,858	4,111	6,0~~96~~84
Bayer Corporation	1,035	827	81~~8~~6
Billings Public Works	391	312	30~~9~~8
Burlingame, Ks, City of	1,776	1,419	1,40~~3~~0
Burlington, Ok, City of	220	176	17~~4~~3
Cassoday, Ks, City of	224	179	17~~7~~6
Certainteed Corp.	3,630	2,901	2,86~~8~~2
City Utilities of Springfield	138,019	110,320	10~~9,054~~8,836
Cleveland Municipal Auth.	2,572	2,056	2,0~~32~~28
Conagra, Inc.		2,073	2,04~~9~~5
Conoco, Inc	2,069	1,654	1,63~~5~~1
Continental Nat Gas, Inc.	3,258	2,604	2,5~~74~~69
Copan Public Works Auth.	540	432	42~~7~~6
Danville, Ks, City of	49	39	39
Denison, Ks, City of	230	184	182
Eckert Gas Company	84	67	66
Energy Source Inc.	19,443	15,541	15,3~~63~~32
Excel Corporation			4,0~~64~~56
Flint Hills Gas Co.	82	66	65
Ford Motor Co.	18,103	14,470	14,~~304~~275
Ford, Ks, City of	188	150	148
Freedom Municipal Trust Auth.	292	233	23~~1~~0
Gate, Ok, Town of	141	113	112
General Motors Corp.	10,344	8,268	8,1~~74~~57
GPM Gas Corp.	6,191	4,949	4,8~~92~~82
Granby, Mo, City of	1,738	1,390	1,37~~4~~1
Greeley Gas Company	31,620	25,274	~~24,984~~30,486
Grove Municipal Serv. Auth.	11,394	11,635	11,~~502~~479
Hamilton, Ks, City of	280	224	30~~3~~2
Howard, Ks, City of	1,103	882	1,19~~9~~7
Iola, Ks, City of	8,817	7,047	6,9~~67~~53
Jane Phillips Medical Center	514	411	406
Kansas Municipal Gas Assoc.	25,502	20,384	20,1~~50~~10

TF030000008D0020003P1262 Substitute Second Revised Sheet No. 8D
TF04 First Revised Sheet No. 8D
TF05Richard N. Ficken, Vice President
TF06111296 110196

RECOVERY OF GAS SUPPLY REALIGNMENT COSTS
PURSUANT TO ARTICLE 14
OF THE GENERAL TERMS AND CONDITIONS

CUSTOMER	RP96-173 3-31-96	RP96-303 7-31-96	RP96-400 10-31-96
Kechi, Ks, City of	$ 514	$ 411	$ 406
Lawrence Paper Co.	673	538	53~~1~~0
LeAnn Gas Company	3,712	2,967	2,9~~33~~27
Lebo, Kansas, City of	603	482	65~~5~~4
Liberal, Mo, City of	502	401	39~~6~~5
Mannford Public Works Auth.	1,722	1,376	1,47~~3~~0
McLouth, Ks, City of	874	699	9~~50~~48
Missouri Gas Energy	1,422,535	1,137,046	1,12~~4,001~~1,759
Mountain Iron & Supply	10,289	8,224	15,~~404~~374
Mulberry, Ks, City of	502	401	39~~6~~5
Nebraska Public Gas Agency	11,788	9,423	9,~~315~~296
Nelagoney Rural Gas	27	22	21
Neodesha, Ks, City of	5,205	4,160	5,6~~53~~42
Oilton, Ok, City of	39	31	3~~1~~0
Olivet, Ks, City of	66	52	52
Orlando, Ok, Town of	145	116	115
Oronogo, Mo, City of	253	202	200
Peoples Natural Gas Co.	606	484	47~~9~~8
Plattsburg, Mo, City of	3,122	2,495	2,46~~7~~2
Public Service Co. of CO.	190	152	150
Questar Energy Trading Company			4,0~~64~~56
Reading, Ks, City of	235	188	256
Rural Water - Grady Co.	116	92	91
Severy Gas Co., Inc.	258	240	23~~8~~7
Tartan Energy Co.	19,416	15,519	15,3~~41~~11
Union Pacific Fuels, Inc.	48,971	39,143	38,6~~94~~16
United Cities Gas Co.	193,900	154,986	15~~3,207~~2,903
Universal Resources Corp.	6,429	5,139	5,0~~80~~70
US Gypsum	7,314	5,846	5,7~~79~~67
Utilicorp United Inc.	144,108	120,799	139,~~404~~126
Viola, Ks, City of	108	86	85
Vulcan Chemicals	12,858	10,278	10,1~~60~~40
Wakita Utilities Authority	453	362	35~~8~~7
Wann Public Works Authority	150	120	119
Westar Gas Marketing	42,734	34,158	31,~~114~~052
Western Resources, Inc.	1,158,171	925,737	91~~5,116~~3,290
Williams Energy Serv. Co.	55,281	44,187	43,~~680~~593
	$3,469,068	$2,776,939	$2,782,536
	=========	=========	=========

WILLIAMS NATURAL GAS COMPANY
ALLOCATION OF GSR COSTS
BASED ON FIRM TRANSPORTATION MDTQs in DTH/D
AT OCTOBER 1, 1996

CUSTOMER	MDTQ	ALLOCATION
AG PROCESSING, INC.	605	$613
ALTAMONT MUNICIPAL GAS AUTHORITY	1,400	$1,420
AMERICUS GAS COMPANY	524	$531
ARGONIA, KANSAS, CITY OF	390	$395
ARKANSAS LOUISIANA GAS COMPANY	2,055	$2,084
ASSOCIATED PURCHASING SERVICE, INC.	2,653	$2,690
AUBURN, KANSAS, CITY OF	2,024	$2,052
AVANT UTILITIES AUTHORITY	174	$176
BARRETT RESOURCES CORP.	6,000	$6,084
BAYER CORPORATION	805	$816
BILLINGS PUBLIC WORKS	304	$308
BURLINGAME, KANSAS, CITY OF	1,381	$1,400
BURLINGTON, OKLAHOMA, CITY OF	171	$173
CASSODAY, KANSAS, CITY OF	174	$176
CERTAINTEED CORPORATION	2,823	$2,862
CITY UTILITIES OF SPRINGFIELD	107,339	$108,836
CLEVELAND MUNICIPAL AUTHORITY	2,000	$2,028
CONAGRA, INC.	2,017	$2,045
CONOCO INC	1,609	$1,631
CONTINENTAL NAT GAS, INC.	2,534	$2,569
COPAN PUBLIC WORKS AUTHORITY	420	$426
DANVILLE, KANSAS, CITY OF	38	$39
DENISON, KANSAS, CITY OF	179	$182
ECKERT GAS COMPANY	65	$66
ENERGY SOURCE INC.	15,121	$15,332
EXCEL CORPORATION	4,000	$4,056
FLINT HILLS GAS COMPANY	64	$65
FORD MOTOR COMPANY	14,079	$14,275
FORD, KANSAS, CITY OF	146	$148
FREEDOM MUNICIPAL TRUST AUTHORITY	227	$230
GATE, OKLAHOMA, TOWN OF	110	$112
GENERAL MOTORS CORPORATION	8,045	$8,157
GPM GAS CORPORATION	4,815	$4,882
GRANBY, MISSOURI, CITY OF	1,352	$1,371
GREELEY GAS COMPANY	30,067	$30,486
GROVE MUNICIPAL SERVICES AUTHORITY	11,321	$11,479
HAMILTON, KANSAS, CITY OF	298	$302
HOWARD, KANSAS, CITY OF	1,180	$1,197
IOLA, KANSAS, CITY OF	6,857	$6,953
JANE PHILLIPS MEMORIAL MEDICAL CENTER	400	$406

WILLIAMS NATURAL GAS COMPANY
ALLOCATION OF GSR COSTS
BASED ON FIRM TRANSPORTATION MDTQs in DTH/D
AT OCTOBER 1, 1996

CUSTOMER	MDTQ	ALLOCATION
KANSAS MUNICIPAL GAS ASSOCIATION	19,833	$20,110
KECHI, KANSAS, CITY OF	400	$406
LAWRENCE PAPER COMPANY	523	$530
LEANN GAS COMPANY	2,887	$2,927
LEBO, KANSAS, CITY OF	645	$654
LIBERAL, MISSOURI, CITY OF	390	$395
MANNFORD PUBLIC WORKS AUTHORITY	1,450	$1,470
MCLOUTH, KANSAS, CITY OF	935	$948
MISSOURI GAS ENERGY	1,106,325	$1,121,759
MOUNTAIN IRON & SUPPLY	15,162	$15,374
MULBERRY, KANSAS, CITY OF	390	$395
NEBRASKA PUBLIC GAS AGENCY	9,168	$9,296
NELAGONEY RURAL GAS	21	$21
NEODESHA, KANSAS, CITY OF	5,564	$5,642
OILTON, OKLAHOMA, CITY OF	30	$30
OLIVET, KANSAS, CITY OF	51	$52
ORLANDO, OKLAHOMA, TOWN OF	113	$115
ORONOGO, MISSOURI, CITY OF	197	$200
PEOPLES NATURAL GAS COMPANY	471	$478
PLATTSBURG, MISSOURI, CITY OF	2,428	$2,462
PUBLIC SERVICE COMPANY OF COLORADO	148	$150
QUESTAR	4,000	$4,056
READING, KANSAS, CITY OF	252	$256
RURAL WATER-GRADY COUNTY	90	$91
SEVERY GAS COMPANY, INC.	234	$237
TARTAN ENERGY COMPANY	15,100	$15,311
UNION PACIFIC FUELS, INC.	38,085	$38,616
UNITED CITIES GAS COMPANY	150,799	$152,903
UNIVERSAL RESOURCES CORPORATION	5,000	$5,070
US GYPSUM	5,688	$5,767
UTILICORP UNITED INC.	137,212	$139,126
VIOLA, KANSAS, CITY OF	84	$85
VULCAN CHEMICALS	10,000	$10,140
WAKITA UTILITIES AUTHORITY	352	$357
WANN PUBLIC WORKS AUTHORITY	117	$119
WESTAR GAS MARKETING	30,625	$31,052
WESTERN RESOURCES, INC.	900,725	$913,290
WILLIAMS ENERGY SERVICES COMPANY	42,993	$43,593
TOTAL MDTQ	2,744,253	$2,782,536

SCHEDULE
MTL - 19

Missouri Gas Energy
Summary of
Comparison of Mid-Kansas II
Commodity and Trans. Costs

Commodity	
Mid-Kansas II Commodity	$21,507,076
Less Peaking Premium	($2,131,332)
Net Baseload Commodity Value	$19,375,744
Tight Sands Commodity	$26,697,756
Net Commodity Difference	($7,322,012)
Transportation	
Mid-Kansas II Transport	$13,433,179
Less Refunds Received	($1,027,558)
Net Mid-Kansas II Transport.	$12,405,621
PEPL Transport. Cost	$6,928,756
Net Transport Difference	$5,476,865
Summary	
Commodity Difference	($7,322,012)
Transport. Difference	$5,476,865
Net Difference	($1,845,147)

No excess premium after needed adjustments.