

ROME FARMS

Steve Rome

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Testimony for hearing on Senate Bill 325 Senate Utilities Committee February 20, 2007

Chairman Emler and committee members, my name is Steve Rome. I farm in southwest Kansas and I serve as president of the Southwest Kansas Corn Growers Association and also on the board of the Kansas Corn Growers Association.

I'm not a lobbyist or an attorney and unlike many of the people who will testify here today and tomorrow, I don't feel comfortable standing before you today. But I have been here before and I am back to try to explain to you why we need Senate Bill 325. We have a problem in Southwest Kansas regarding access to gathering lines and representation for citizens who rely on these lines to transport their gas supply requirements. The KCC has studied this problem and made a recommendation, but has also asked for a legislative solution to issues it feels it cannot address.

The natural gas infrastructure that southwest Kansas was built upon has served our families and our farms for many years. It worked for the natural gas companies and it worked for the citizens of southwest Kansas. When these lines were a part of an interstate pipeline under one ownership, we could appeal to a federal authority if we had a problem. Now that the gas lines have been separated from the interstate system and no longer under federal jurisdiction, the obvious solution would be that the Kansas Corporation Commission would have jurisdiction in matters relating to these facilities. But the KCC had not claimed that authority until its recent order asserting that the KCC does have jurisdiction in some instances but not all.

I'll let other proponents explain the technical details of how this bill works. But I did want to share with you an example of how this problem affects people like me. In fact, my example affects me and my family personally.

Attached to my testimony is a letter from DCP Midstream (formerly Duke) that I received on January 26. DCP Midstream (Duke) supplies much of the natural gas to the irrigation wells on our farm. It states along with some other requirements that they will substantially increase the price of natural gas we purchase from them. Doing some rough math, it would represent an increase of about \$100,000 for natural gas on our farm this year. The letter ends stating that if we agree, we can let them know and they will prepare the contract. It then states: "If you do not wish to continue to receive gas under these terms, let us know and we will disconnect the taps."

We might be able to find a more competitively priced supply of gas, but what good would that do if we cannot transport the gas since Duke owns the pipeline and threatens to remove the tap. There are other potential gas supplies but no other gas pipelines. Because they own the pipe, they can hold us hostage to their price. We have been able to work with Duke in the past to resolve issues, which makes this particular ultimatum even more disappointing. But why should Duke negotiate? Under the current law, even with the recent KCC ruling, it is unclear whether the KCC has the authority to do anything and so the only way I could fight this would be to try to beat them in court. I think it's fairly obvious that me and my lone attorney would be no match this corporation and its team of attorneys.

This bill is fair and simple. It would give the KCC oversight to ensure that no gathering company would deny transportation and access to a tap on their system arbitrarily. I could use the gas pipeline to move gas supply that I arranged for my gas needs. It doesn't require the gas companies to provide gas where it is not available, but does allow access to gathering lines where natural gas is available. These lines are already subject to oversight by the KCC for the benefit of producers using gas gathering services. This bill would extend KCC oversight to the other uses of these lines giving rural customers at least some level of consumer protection as enjoyed by other natural gas customers in Kansas. .

We've worked for years to find our own solutions and to find legislative solutions when necessary to our natural gas problems. When gas companies decided it was not profitable to add lines to serve rural irrigators in some areas, farmers formed Non-Profit Utilities and spent millions of dollars to build pipeline systems that would allow us to tie in to high pressure gathering lines to move gas to our irrigation engines. Two years ago, when those residential customers were cut off from natural gas service, we sought protection by passing legislation we thought would address that problem. We also participated in a task force that looked into issues regarding curtailment of service and hydrogen sulfide issues.

We've been before the Kansas legislature before and the legislature passed legislation that they thought addressed these problems. This legislation cleans up the previous bills ensuring that the laws governing gathering lines work together in providing clear guidance to the KCC. I feel confident that if the provisions of this bill are enacted, the legislature will finally have set a clear direction for natural gas legislation in Kansas and will give rural end users like me less reason to fear letters from natural gas companies.

Thank you.



DCP Midstream
6120 S. Yale, Suite 1100
Tulsa, OK 74136
918-492-3331

January 26, 2007

SWKI-STEVENS NORTH, INC.,
Formerly SWKI-SPIKES NORTH, INC.
Attention: Mr. Rick Hansen
1020 West City Limits
Hugoton, Kansas 67951

Re: Gas Sales Contract dated April 1, 2001
Seller's File No. GSC-0003-00* ("Contract")

Dear Mr. Hansen:

We have become aware that the subject Contract expired March 31, 2002, and that the Contract did not contain any "evergreen" term extension provisions. We have continued to deliver gas to the three taps notwithstanding expiration of the Contract. However, we cannot maintain service indefinitely; the Contract expired almost five years ago.

We are willing to continue to provide gas to the taps designated in the Contract under an amendment that extends the term, increases the amount of the Irrevocable Letter of Credit, and provides for a price increase that reflects current market values for natural gas, natural gas liquids and/or NGLs.

We would be willing to agree to a 3 year extended primary term, with annual evergreen provisions, subject to termination upon 60 days notice as of the end of the extended primary term or any anniversary of that date. The new price, based on actual 2006 prices, will be the price quoted as the "Texas/Oklahoma (Mainline)" price index for gas delivered to Panhandle Eastern Pipe Line Company, LP as contained in the first issue of *Inside F.E.R.C.'s Gas Market Report* for the delivery month plus \$1.29/MMBtu. The new Irrevocable Letter of Credit, representing a 60 day exposure for peak summer volumes, will need to be for \$300,000, and you will need to maintain it continuously in force. The Contract amendment would also provide for annual price redeterminations based on the then-current values of gas and NGLs.

If the foregoing is acceptable to you, please so advise us promptly, and we'll prepare the Contract amendment. If you do not wish to continue to receive gas under these terms, let us know and we'll disconnect the taps.

Very truly yours,

Susan H. Moldenhauer
Commercial Accounts Manager, Liberal Asset