Approved 3/15/89
Date

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES.

The meeting was called to order by Sen. Bill Morris at
Chairperson

9:02 a.m./p.m. on March 6, 1989 in room 254-E of the Capitol.

Members present:
Senators Morris, Doyen, Francisco, Hayden, Kanan, F. Kerr, Martin, Sallee and Vidricksen.

Committee staff present:
Hank Avila, Legislative Research Department
Ben Barrett, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Louise Cunningham, Committee Secretary

Conferees appearing before the committee:

Harland E. Priddle, Secretary of Commerce
Russell Stilwell, United Mine Workers of America
Bill Giles, United Mine Workers
John C. Woodman, KCPL Company
Connie L. McGinness, Kansas Electric Cooperatives, Inc.
Jerry C. Kempf, Sunflower Electric Cooperative, Inc.
Larry Adair, Board of Public Utilities of Kansas City
Tom Taylor, KPL Gas Service

Hearing on S.B. 201 - Electric public utilities required to burn coal in the generation of electricity.

Sen. Phil Martin explained the bill which would require the mandatory use of Kansas coal by percentage. He gave a summary of what other states are doing in this regard. He said Wyoming presently has a motion filed before the Supreme Court claiming the Oklahoma mandatory burn law to be unconstitutional. It is impossible to predict how long it will take to obtain a ruling. Sen. Martin spoke of the impact such legislation would have on the coal industry in Kansas. He cited portions of the Kansas Coal Utilization Study prepared for the Kansas Coal Commission dated November, 1988 by J.E. Sinor Consultants, Inc.

Harland E. Priddle, Secretary of Commerce, said the 1987 Legislature appropriated funds to have the Kansas Coal Commission study ways to expand existing markets and to create new markets for Kansas coal. S.B. 201 is the result of that study. The Kansas Coal Commission supports the concept of S.B. 201. A copy of his statement is attached. (Attachment 1).

Russell Stilwell, United Mine Workers of America, spoke in favor of the bill and said there were escape clauses in the bill and this was a step in the right direction. He said the state should protect its industry. A copy of his statement is attached. (Attachment 2). In answer to a question he said his union was not supportive of Wyoming in their lawsuit.

Bill Giles, United Mine Workers, said he concurred with Mr. Stilwell's remarks and several coal miners had planned to be here today to voice their support of the bill but because of the adverse weather in their area it was impossible to be here.

Opponents

John C. Woodman, KCPL Company, said most plants cannot burn a 10 percent blend without serious retrofit. Also, many utilities have executed long-term contracts - many for the life of the plant. A copy of his statement is attached. (Attachment 3).

Conni McGinness, Kansas Electric Cooperatives, said this legislation would, in effect, cause the farmers in the western one-third of the state, through their electric bills, to fund one industry's economic development in Southeastern Kansas. A copy of her statement is attached. (Attachment 4).

Larry Kempf, Sunflower Electric Cooperative, Inc., said this bill would place an undue burden on ratepayers of Sunflower because the plant was designed and constructed in response to the Clean Air Act. Using the Kansas coal would cause increased corrosion in the scrubber, baghouses and duct work. He felt there were other, less damaging solutions that could result in greater utilization of Kansas coal. A copy of his statement is attached. (Attachment 5).

Larry Adair, Board of Public Utilities of Kansas City, said evironmentally this would be expensive to accomplish and contractually it would be difficult to manage. It would be unfair to require utility customers in Kansas City to bear additional costs for environmental compliance to permit mining elsewhere in the state. A copy of his statement is attached. (Attachment 6).

Tom Taylor, KPL Gas Service, said this bill would cause a large and unnecessary increase in electric consumers' bills. It would also cause pollution problems. To use high sulfur Kansas coal would mean converting our plants at a tremendous cost to the consumer. Instead, he supported using incentives and tax credits to encourage and reward those who are able to use Kansas coal. A copy of his statement is attached. (Attachment 7).

The Committee discussed this issue and it was felt that perhaps a first step might be a Resolution encouraging the use of Kansas coal.

On a motion from Sen. Doyen and a second from Sen. Hayden the Minutes of March 1, 1989 were approved. Motion carried.

The Minutes of March 2 were corrected in the second sentence in Action on S.B. 105 to read "Without amendments, he felt this bill would encourage the Board to undertake items above and beyond what the Board is doing now". On a motion from Sen. Doyen the Minutes of March 2, 1989, as corrected, were approved. Motion was seconded by Sen. Hayden. Motion carried.

Meeting was adjourned at 10:00 a.m.

GUEST LIST

COMMITTEE: SENATE TRANSPORTATION & UTILITIES COMM. DATE: 3-6-89

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
[illegible]	Topeka	
JERRY C. KEMPF	HAYS, KS	SUNFLOWER ELEC.
TOM DAY	TOPEKA	KCC
LARRY ADAIR	KCK	BOARD OF PUBLIC UTILITIES
Tom Taylor	KPL Gas Service	Topeka
Rick Kready	Topeka	KPL Gas Service
Conni McGinness	Topeka	Ks Electric Coop.
Jerry C Conrad	"	KG&E
Woody Woodman	KC Mo	KCPL
M. Hawver	Topeka	Cap-Journal
Tom Whitaker	Topeka	Ks Motor Carriers Assn
Alan Steppat	Topeka	Pete McGill & Associates
Harland Priddle	Topeka	KDOC
Bill Giles	P.O. Box 436	United Mine Workers
Russ Stilwell	916 [illegible]	Boonville, IN 47601

Testimony

Presented to:

The Senate Transportation and Utilities Committee

on Senate Bill 201

by

Harland E. Priddle
Secretary of Commerce

March 6, 1989

ATT. 1
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3/6/89

Good morning ladies and gentlemen. I am happy to be here today as Chairman of the Kansas Coal Commission. I would like to brief you on the origin of Senate Bill 201, which you are considering, and explain what it hopes to accomplish.

The 1987 Kansas Legislature created the Kansas Coal Commission to study ways to expand existing markets and to create new markets for Kansas coal. Funds were appropriated, to be matched by private contributions, for the purpose of conducting a study to address these issues. The commission hired J.E. Sinor Consultants, Inc. of Niwot, Colorado, to conduct the Kansas Coal Utilization Study.

The major focus of the study was to analyze the current Kansas coal market, perform a competitive analysis of Kansas mining, transportation, and environmental conditions, and recommend possible actions to aid the state's coal industry. The bill you are considering is a result of the study recommendations for improvement in the Kansas coal industry.

The study indicates the Kansas coal market primarily results from sales to electric utilities. In 1987, approximately 1.67 million tons of the 2.02 million tons of coal mined in Kansas were sold to electric utilities. Approximately 355,000 tons were sold to industrial users. Although the majority of sales are to utilities, Kansas coal only comprised about 10.2% of the total amount of coal burned by Kansas utilities in 1987. Figures for 1988 will show a decrease in this percentage to approximately 5% because of the shutdown of the Midway mine at LaCygne. The attached table indicates Wyoming coal comprised over 84.5% of all coal burned in Kansas utilities in 1987 and may increase to approximately 88% in 1988.

Environmental concerns are the major reason to this dependence on Wyoming coal. Kansas mined coal typically contains between 2.5 and 6 percent sulfur as compared to .3 to 1.0 percent for Wyoming coal. Environmental standards regarding sulfur emissions have caused significant fuel source switching. The other important factor which contributes to the dependence on Wyoming coal is the cost. Tables 37 and 38, which are attached to my testimony, compares the long term delivered cost of Wyoming and Kansas coal to the major power plants in Kansas. The data indicates that Kansas coal is price competitive (absent the environmental constraints) with Wyoming coal at the eastern plants in Kansas. Given the advance of new technology, which is at the heart of these bills, environmental concerns with Kansas coal may be relieved to the point that Kansas mines can compete for at least the utility coal markets in the eastern third of Kansas.

The outlook for electric utility sales is not good under the present circumstances. The major in-state electric utility user has recently entered into litigation to decrease the amount of Kansas coal purchased through a long term contract. This decrease is said to be necessary because the utility can not burn as high a percentage of Kansas coal and meet sulfur dioxide emission limits. Additional utility outlets for Kansas coal is not promising either with only one new boiler slated to come on line within the region or state by 1995.

Senate Bill 201 addresses a mandatory burn law aimed at increasing the usage of Kansas coal and replacing out-of-state coal. The mandatory burn law or a law requiring coal fired electric utilities to burn a certain minimum percentage of Kansas mined coal would reduce the amount of money which must be sent outside the state to pay for imported coal. The Kansas Coal Commission at its meeting on January 23 voted to support in concept the mandatory burn law you are now considering.

Mr. Chairman, I stand for any questions you or the committee members might have

.

TABLE 37

COMPARATIVE TRANSPORT CHARGES FOR WYOMING AND KANSAS COALS

Plant	Rail Miles Wyoming	Rail Miles Kansas	Freight Wyoming $/Ton	Freight Kansas $/Ton
Lawrence	750	150	13.12	9.50
Nearman	780	140	13.65	9.10
Tecumseh	730	170	12.77	10.30
Holcomb	780	390	13.65	19.10
Jeffrey	700	200	12.25	11.50
LaCygne	870	70	15.22	6.30

TABLE 38

COMPARATIVE LONG-TERM DELIVERED COSTS FOR WYOMING AND KANSAS COALS

Plant	Wyoming Freight $/MMBTU	Wyoming Total $/MMBTU	Kansas Freight $/MMTBU	Kansas Total $/MMBTU
Lawrence	0.78	1.31	0.38	1.34
Nearman	0.81	1.34	0.36	1.32
Tecumseh	0.76	1.29	0.41	1.37
Holcomb	0.81	1.34	0.76	1.72
Jeffrey	0.73	1.26	0.46	1.42
LaCygne	0.91	1.44	0.25	1.21

TABLE 9

ORIGIN OF COAL RECEIVED AT KANSAS ELECTRIC UTILITY PLANTS 1986-1987

Plant, State	Year	1,000 Tons	Pct.*	BTU/Lb	Pct. Sulfur	Cents/MMTBU
Riverton						
Kansas	86	132.6	47	12,123	2.64	132.6
	87	144.2	68	11,915	2.47	132.6
Missouri	86	51.6	18	12,008	2.91	135.5
	87	none	0	-	-	-
Oklahoma	86	95.9	34	11,960	2.74	136.3
	87	67.1	32	11,648	0.48	176.0
Kaw						
Illinois	86	79.1	100	11,559	2.48	156.5
	87	83.3	100	11,264	2.37	207.6
Nearman						
Wyoming	86	954.7	100	8,416	0.29	122.0
	87	915.8	100	8,297	0.32	102.0
Quindaro						
Illinois	86	204.8	100	11,437	2.48	168.3
	87	338.9	100	11,220	2.43	217.8
LaCygne						
Illinois	86	none	-	-	-	-
	87	58.2	2	11,019	3.38	123.2
Kansas	86	953.2	31	9,237	5.08	119.3
	87	1,394.7	37	9,285	5.09	126.2
Missouri	86	459.9	15	9,249	5.07	119.0
	87	235.2	6	9,162	4.84	125.8
Wyoming	86	1,653.7	54	8,444	0.34	118.2
	87	2,045.1	55	8,458	0.31	99.0
Jeffrey Energy Center						
Wyoming	86	7,654.9	100	8,327	0.34	129.6
	87	8,002.8	100	8,391	0.33	128.8
Lawrence						
Wyoming	86	693.5	100	10,723	0.70	172.6
	87	690.1	100	10,940	0.85	152.1
Tecumseh						
Wyoming	86	173.9	100	10,731	0.71	172.5
	87	155.6	100	10,960	0.88	147.9
Holcomb						
Wyoming	86	794.8	100	8,319	0.38	145.4
	87	902.1	100.	8,282	0.35	105.5
Total State						
Kansas	86	1,085.8	8			
	87	1,538.9	10			
Missouri	86	511.5	4			
	87	235.2	2			
Oklahoma	86	95.9	1			
	87	67.1	0			
Illinois	86	280.9	2			
	87	480.4	3			
Wyoming	86	11,925.5	86			
	87	12,711.5	85			

*Percent of Quantity may not total 100 due to rounding.

Source: DOE/EIA-0191, Cost and Quality of Fuels for Electric Utility Plants, 1986-1987

TABLE 14

NEW COAL-FIRED GENERATING CAPACITY TO 1998

State and Date		Plant	Size MW	Coal Required Tons/Year
Arkansas		No Coal Units Before 1998		
Kansas	1992	Riverton	75.0	150,000
Missouri	1996	Watson	630.0	1,500,000
Nebraska		No Coal Units Before 1998		
Oklahoma		No Coal United Before 1998		

TABLE 15

POTENTIAL NEW COAL-FIRED GENERATING CAPACITY IN KANSAS
(For Post-2000 Startup)

Year	Plant	Size, MW	Coal Required, Tons/Year
2000	Nearman Creek #2	275	700,000
2000+	Site X	650	1,500,000
	Jeffrey #4	680	1,500,000
	Holcomb #2	275	800,000
	State Total	1,880	4,500,000

Distribution of Coal

A substantial amount of Bureau of Mines (BOM) District 19 (see Table 16 for key to districts) coal has always been used in Arkansas generating plants. District 19 coal use in Arkansas generating plants doubled between 1980 and 1982, continuing to increase until 1987.

The major supply of coal to Nebraska's generating plants is also coming from district 19 (99 percent). Although districts 4 (Ohio), 9 (Kentucky), and 15 (Kansas, Missouri, and parts of Oklahoma) have supplied coal in the past, only districts 16, 17 (Colorado), and 19 are supplying Nebraska's generating plants in 1987.

Kansas utilities currently receive coal from BOM districts 10 (Illinois), 15 (Kansas, Missouri, and parts of Oklahoma), and 19. The primary source of coal is from Wyoming.

District 19 also supplies Missouri with coal for their utilities; however, Missouri utilities are receiving a substantial amount of coal from district 10, as well as from districts 8, 9 (Kentucky), and 15.

Oklahoma utilities receive most of their coal from BOM district 19 (Wyoming); smaller amounts have historically come from districts 14 (Arkansas and part of Oklahoma) and 15. The mix will change with a new Oklahoma law which requires that 10 percent of utility coal be from local sources.

1-7

COMMENTS DELIVERED BY

RUSSELL STILWELL

LEGISLATIVE REPRESENTATIVE, REGION 3

UNITED MINE WORKERS OF AMERICA

BEFORE

KANSAS SENATE STANDING COMMITTEE ON

TRANSPORTATION AND UTILITIES

KANSAS STATE CAPITAL

TOPEKA, KANSAS

March 6, 1989

ATT. 2
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3/6/89

COMMENTS

Mr. Chairman and members of the Senate Transportation and Utilities Committee. My name is Russ Stilwell and I represent the Legislative Affairs of the United Mine Workers of America. I am accompanied today, by Mr. William Giles, UMWA President of District 14 which includes the State of Kansas. Mr. Giles is also a member of the Kansas Coal Commission, created in 1988.

On behalf of the coal miners and our membership in the State of Kansas I would like to thank you for allowing me the opportunity to present testimony today. Coal mining in the State of Kansas, as in many other regions of the country, is at a crossroads. Pending Federal legislation on Acid Rain will probably occur this year, coal mining productivity, nation-wide, is up, due to increased coal mining technology and worker productivity and the demand for high sulfur coal would appear to look dismal. Clearly all is not well in the coal industry in 1989.

That is why we in the mining industry are looking towards the states to give this industry a shot in the arm. Senate Bill 201 is one such piece of legislation that can assist Kansas coal production, increase coal miner employment and create economic opportunity for Kansas.

The mandatory 10% Kansas Coal bill is exactly the type of legislation that will spur coal mining economic development. In considering this type of legislation, you will not be the first state to consider and/or adopt such a measure. Oklahoma passed such a bill in 1986 and Arkansas did the same in 1987. Both of these states are now experiencing new coal markets and mining ventures directly related to their mandatory burn legislation.

Attached to my comments is a fact sheet that I would like to review with you so you will understand the positive impacts of the legislation before you.

COAL MINERS POLITICAL ACTION COMMITTEE
COMPAC DEPARTMENT—MIDWEST REGION III OFFICE
United Mine Workers of America

Russell Stilwell
COMPAC - Coordinator
916 B Millis Avenue
Boonville, Indiana 47601

Telephone
Area Code (812) 897-0126

FACT SHEET ON KANSAS SENATE BILL 201

Senate Bill 201 introduced by Senator Phil Martin promotes the usage of Kansas coal. The legislation provides that every public utility which provides electric power for sale to consumers in Kansas and generates such power from coal-fired plants located in Kansas shall burn a mixture of 10% Kansas mined coal as calculated on per tonnage basis.

1. **WHAT IS A 10% COAL BURN BILL?**

   The 10% bill is really a very simple piece of legislation. It requires Kansas Public Utilities that provide electricity from coal-fired plants to use a minimum of 10% Kansas coal in their facilities.

2. **ARE THERE ANY OTHER STATES THAT HAVE ADOPTED SIMILIAR MEASURES?**

   Yes! In 1986 the State of Oklahoma adopted a mandatory 10% coal burn bill for Oklahoma coal. This legislation provided 10% mandatory Oklahoma Coal Burn very similiar to Kansas Senate Bill 201. The State of Arkansas adopted a mandatory Arkansas Coal Burn Bill in 1987.

3. **WERE THESE STATES COAL BURN BILLS ANY DIFFERENT THAN THE SENATE BILL 201?**

   The Oklahoma bill has a provision that exempts utilities from compliance if the delivered cost of the coal to the utility exceeds 5% of the cost of out-of-state delivered coal. The Arkansas bill passed in 1987 provided a sequence increase of 3% mandatory burn in 1988, 6% in 1989, and 10% in the year 1990. The Arkansas compliance is waived if the cost of electricity would be increased, if violations of environmental regulations would result, or if the utility would be unable to fulfill any contractual committments for purchase of coal which were in place at the time of enactment of the law.

4. **DO OTHER STATES HAVE PENALTIES FOR NONCOMPLIANCE AND SHOULD KANSAS CONSIDER ONE?**

   Arkansas and Oklahoma do not have any set penalty for noncompliance of their mandatory coal burn bills. As stated in the Kansas Coal Utilization study prepared for the Kansas Coal Commission these bills are "essentially a sense of the legislature declaration". Kansas should probably not be any different in their approach. In short the legislature would be saying, "we believe in the promotion of Kansas products". The message to the Kansas Electric Utility industry should be, "BUY KANSAS COAL" and not, "WHY NOT KANSAS COAL".

5. **HAS THE MANDATORY COAL BURN BILL HELPED THE INDUSTRY IN OKLAHOMA, EVEN WITH THEIR LACK OF NONCOMPLIANCE PENALTIES?**

If you listen to coal producers in these states then the answer is yes! According to the Coal Commission Report prepared by J.E. Sinor Consultants, Inc. in November of 1988, "Representatives of the Oklahoma Coal Mining Industry state that the mandatory Burn Law has been the salvation of the industry. In the first year of the mandatory burn law, 600,000 tons of production resulted from the law." The February 20, 1989, issue of Coal Week, a weekly coal industry publication, stated the formation of a new Amax Coal/Alpine Stigler, Oklahoma Mine for deliveries to the Grand River Dam Authority's Choutau Plant. According to the report the utility needs the 12-15 thousand tons per month in order to meet the state's "BUY OKLAHOMA" law.

6. **HAS THE MANDATORY COAL BURN BILL HELPED THE INDUSTRY IN ARKANSAS?**

The February 20, 1989, coal weekly publication has this to say about the Arkansas Coal Burn Law. "Arkansas Power and Light is believed to be about one month away from signing what will probably be an eight-year lignite supply contract with Benton Mining Partnership, an agreement expected to supply AP & L's White Bluff Plant with 400,000 tons per year of Arkansas lignite this year and 700,000 TPY thereafter to satisfy the State's 'BUY ARKANSAS' coal legislation."

7. **HOW WILL THE KANSAS MANDATORY BURN BILL HELP THE STATE OF KANSAS?**

The 1988 State Coal Commission Report addresses a mandatory coal bill in detail. The summary prepared by the consultant makes a very clear case for the implementation of a Kansas Burn Bill. The study states that a mandatory burn law would create overall benefits to the State of Kansas. Particulars included in the report state:

A. Demand for over 700,000 tons of Kansas coal per year would be created.

B. Elimination of over 1 million tons of out-of-state coal would be displaced.

C. A transfer of over $20 million per year from the economy of other states and out-of-state railroads back to the economy of Kansas.

D. Nearly 400 direct coal mining and indirect jobs would be created generating $10 million per year in wages alone.

E. All cases examined in the report, using a 10% blend, produce positive economic results for the state.

8. **WILL AN ENACTMENT OF SENATE BILL 201 HAVE POSITIVE IMPACTS AS WRITTEN, EVEN WITHOUT NONCOMPLIANCE PENALTIES?**

The answer to this question is left to speculation but one must look to other states that have implemented such a law. In the case of Oklahoma and Arkansas the results have had positive results. Kansas should be no exception to the rule. In each of the states, the will of the legislature was clearly expressed and the utility industry responded accordingly.

9. **WHAT ABOUT THE WYOMING SUPREME COURT CHALLENGE TO THE OKLAHOMA LAW?**

The State of Wyoming did challenge the Oklahoma law claiming the mandatory burn law to be an unconstitutional restraint of interstate commerce. It is impossible to determine how long it will take to obtain a ruling. The challenge did not prevent the State of Arkansas from enacting legislation and should not prevent the will of any legislative body from enacting law. There are numerous mandatory coal burn laws on the books of many states that require the books for decades. It appears uncertain that Wyoming is challenging the issue of the law or is attempting to intimidate states that put their resources first for the purpose of keeping jobs and economic opportunity at home.

10. **WILL THE ENACTMENT OF SENATE BILL 201 REALLY HELP THE COAL MINING SECTOR OF THE STATE AND THE STATE IN GENERAL?**

The answer to this question is obvious. Even more clear is the fact that without the enactment of "BUY KANSAS COAL" legislation the coal industry in Kansas is going to continue to deteriorate with jobs and economic opportunity and Kansas money going to other states.

11. **HOW MUCH MONEY IS TRANSFERED TO OTHER STATES IN THE FORM KANSAS OUT-OF-STATE COAL PURCHASES?**

In 1987, Kansas Utilities purchased 15.03 million tons of coal with 13.49 million tons coming from out of state resources. Of this total, Wyoming contributed 12.71 million tons. According to the Department of Energy--Energy Information Administration publication, Cost and Quality of Fuels for Electric Utility Plants, 1986-87, the Kansas Utility Industry (Kansas consumers) spent $273 million for Wyoming coal delivered to their plants. This price includes the cost of the coal at mine site, the Wyoming severance tax and delivery charges. Just the severance taxes alone amounts to nearly $20 million a year. In short, Kansas ratepayers are financing the roads and schools of Wyoming while Kansas coal is setting idle in the ground.

12. **ANY QUESTIONS?**

Contact Bill Giles, President of the United Mine Workers in District 14, Kansas and Missouri, at 316-232-3232 or Russ Stilwell, UMWA Legislative Representative for Region 3 at 812-897-0126.

WRITTEN STATEMENT PREPARED FOR THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE

RE: SB-201

BY: John C. Woodman, KCPL Company

March 2, 1989

Mr. Chairman and Members of the Committee:

The KCP&L Company opposes SB-201. There is an inference in this bill that Kansas utilities CAN burn a 10 percent blend. The KCPL Company has over 30 years experience burning local high-sulphur coal, and we continue to burn a 50/50 blend in LaCygne #1. This unit was designed to burn 100 percent Kansas coal, but to meet the allowable SO^2 emission levels, we have to reduce the amount of local coal utilized by 50 percent.

We believe that most Kansas plants can't burn a 10 percent blend without serious retrofit. On page XI of the coal utilization study, it is stated that many of the Kansas plants would not be able to accept ANY Kansas coal without exceeding their allowed SO^2 level.

There are two issues pending that must be cleared up before any considerations should be given to a mandatory burn law:

#1--national acid rain legislation;

#2--court test of the Oklahoma Burn Law. This law is believed by many to be unconstitutional as the Interstate

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Commerce laws apply. This issue should be ruled on by the Supreme Court this year.

To obtain a dependable coal source, a utility commonly executes long-term contracts--many for the life of the plant. How do we handle the 10 percent?

Kansas City Power & Light Company is interested in economic development. We believe the increase in costs for rate payers that would result if this bill prevails would be a severe blow to economic development, not only in the industrial field, but in the location of future generating facilities.

We believe that incentives rather than mandates will result in the utilization of more Kansas coal. We are supportive of Senate Bills 227 and 228 that would provide these incentives, but we must oppose SB-201.

TESTIMONY

Before the Senate Transportation & Utilities Committee

S.B. 201

Monday, March 6, 1989

By Conni L. McGinness
Director, Legislative Relations
Kansas Electric Cooperatives, Inc.

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3/6/89

TESTIMONY

May it please the Committee, my name is Conni McGinness, and I am Director of Legislative Relations for Kansas Electric Cooperatives, Inc. (KEC). KEC is the statewide service organization representing 34 rural electric cooperatives in the state, who in turn have a membership of over 160,000 consumers. I am speaking here today on behalf of KEC and its member systems in opposition of Senate Bill 201.

All of the electric cooperatives would be affected by this legislation, but particularly, Sunflower Electric Cooperative in Western Kansas. This legislation would, in effect, cause the farmers in the western one-third of the state, through their electric bills, to fund one industry's economic development in Southeastern Kansas. This concept seems very unfair.

Sunflower Holcomb plant is not equipped to burn high-sulphur Kansas coal. Changing the Holcomb plant so that it could burn Kansas coal would be <u>extremely</u> expensive. We do not oppose the encouragement of burning Kansas coal, but a mandate is something totally different.

"Burn Kansas Coal." This has a nice ring to it. After all, it's just to help an industry that is in bad shape in Southeast Kansas. But it has some similarities to "one more for the road." In both instances, no one has any ill intent, but there could be very costly side effects. As we said earlier, we do not oppose the encouragement of burning Kansas coal, but to make all of our members pay for this economic development for one industry in Southeast Kansas seems very inequitable.

For example, this bill would increase a consumer's utility bill if he happens to be on the lines of a utility that operates a coal-fired electric generator located in the state of Kansas. But his neighbor, who may be served by a utility which does not have a coal-fired generation facility in Kansas, would not have to pay this increase in costs through the changes that plants such as Holcomb and Jeffrey would incur. Besides the obvious possible inequities, this bill also gives the competitive edge to utilities that do not have coal generating plants in Kansas when you look at bottom-line utility bills. For these reasons, we urge you to vote against S.B. 201.

Thank you for allowing me to testify today, and I would be happy to answer any questions that you may have.

WRITTEN STATEMENT OF SUNFLOWER ELECTRIC COOPERATIVE, INC

REGARDING SENATE BILL No. 201

Presented to the

SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

SENATOR BILL MORRIS, CHAIRMAN

BY

JERRY C. KEMPF

DIRECTOR OF EXTERNAL AFFAIRS

Dated: March 6, 1989

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3/6/89

Mr. Chairman and members of the committee, my name is Jerry C. Kempf. I am Director of External Affairs for Sunflower Electric Cooperative, Inc. (Sunflower). Sunflower is a generation and transmission cooperative located in Hays, Kansas and provides electric energy to the western third of the state. I have enclosed a brochure to more fully inform you about Sunflower.

I am here today to testify in opposition to Senate Bill 201 (SB 201). SB 201 would require Sunflower to purchase and use in the generation of electric power "a mixture of coal that contains a minimum of 10% Kansas mined coal". That requirement would place an undue burden on the ratepayers of the region because they, through Sunflower, have constructed a facility which was designed for the clean safe burning of low-sulphur coal as a fuel source. That facility is the Holcomb Plant located seven miles southwest of Garden City.

The Holcomb unit was designed and constructed in response to various Federal regulations including both the Fuel Use Act and the Clean Air Act. The Clean Air Act required that "any unit for which construction is commenced after September 18, 1978" would be required to meet the most stringent air quality protection regulations yet promulgated. There are thirty (30) units of this type in the United States and only one, Holcomb, in Kansas. These units are among the cleanest and most environmentally safe coal-fired plants operating today.

The Holcomb steam generator (boiler) was designed to burn a specified low-sulphur coal. In 1988 Holcomb burned more than 900,000 tons of coal to generate the energy needs of the nearly 50,000 electric customers served by members of the Sunflower system. We anticipate burning nearly 1,000,000 tons in 1989. All of that coal is mined in Wyoming and shipped by unit train to the Holcomb Plant.

Equipment (a dry scrubber) was required by the Clean Air Act to remove the relatively low amounts of SO_2 gases from the stack. That scrubber was also built as a part of the Holcomb unit and it was designed to operate on low-sulphur coal. The stack has a special "plastic" liner which is designed to operate in the low gas temperatures coming out of the scrubber.

As you can see this gets very technical. Basically, if you put a larger amount of sulphur in, you must treat and remove a larger amount of sulphur gas at the stack. Generating units are typically designed around a pre-determined range of coal specifications. The Kansas coal exceeds the outer limits of our plant's design range. Our plant was not designed to burn high sulphur coal. In order to remove the increased SO_2 pollutant gasses generated by burning 10% Kansas coal we would have to scrub continuously at removal rates 60% greater than those currently needed. That rate would not be achievable for continuous high load periods of operation.

I have only talked thus far about pollutants. There are a number of other potential operating problems that could be caused by burning Kansas Coal. A different range of ash fusion temperatures could impair both boiler and scrubber operations. Increased costs ($125,000 per year) would also occur from the increased use of lime to treat the SO_2 gases. The unit would operate at less than plant design capacity and it would also operate less efficiently. We would anticipate increased corrosion in the scrubber, baghouses, and duct work. In addition, severe problems with the stack liner might also be expected and replacement of that liner would be a very real possibility.

Mr. Chairman and members, we are doing everything we can to protect our consumers from rate increases. We have negotiated freight contracts with the railroads that give us rate relief for certain volumes of coal shipped annually.

We feel that there are other less damaging solutions that could result in greater utilization of Kansas coal. Included in these solutions would be a Clean Coal Technology (CCT) grant application, that, long term, could put the valuable Kansas natural resource back in the market place.

I respectfully request that you oppose SB 201. I thank you very much for your time and consideration. I would be happy to answer any questions you might have.

TESTIMONY OF LARRY ADAIR

BEFORE THE SENATE TRANSPORTATION AND UTILITY COMMITTEE

MARCH 6, 1989

Mr. Chairman, Members of the Committee, I am Larry Adair, Assistant Manager of Electric Supply for the Board of Public Utilities of Kansas City, Kansas (BPU). I am here today to speak in opposition to Senate Bill No. 201.

As you know, Senate Bill 201 would require public utilities providing electric power for sale to consumers in Kansas, and generating such power from coal fired plants located in this state, to burn a mixture of coal that contains a minimum of 10% Kansas coal calculated on a per tonnage basis.

The BPU, the largest municipal electric system in the state, provides electric power to residents, businesses, and industries in Kansas City, Kansas. That power is produced at three power stations which burn nearly 99 per cent coal provided through long term coal contracts and spot purchases. The newest of these three stations burns approximately 900,000 tons of low sulfur Wyoming coal annually. The other two stations together burn approximately 500,000 tons of Illinois and Wyoming coal for a combined total of 1,400,000 tons. Since the newest station can not burn Kansas coal, meeting the requirements of Senate Bill 201 would require substituting 140,000 tons of Kansas coal for the coal currently burned at the other two older stations. Environmentally that would be expensive to accomplish, and contractually it would be difficult to manage.

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U. S. Environmental Protection Agency regulations for coal burning utilities in Kansas have stringent limits for emission of sulfur dioxide. The BPU meets these limits through a variety of fuel resources and operating practices. None of these practices includes the operation of boiler flue gas scrubbers. Currently that would be BPU's most costly option. Burning Kansas coals which are higher in sulfur content than any coal currently purchased could initiate such a requirement. It would be unfair to require utility customers in Kansas City to bear additional costs for environmental compliance to permit mining elsewhere in this state.

Beginning January 1, 1989, the BPU did initiate a new operating practice that utilizes a Kansas fuel resource to maintain compliance with environmental regulations. Out of state spot purchases of medium sulfur coals for its two older stations are being reduced by burning large quantities of Kansas natural gas. Deregulation of prices in 1988 has resulted in gas becoming a competitive fuel option for some of BPU's generating units. In 1989, it will provide more than 10% of BPU's fuel needs. Plans are for this program to continue as long as gas prices remain competitive with other alternatives.

In conclusion, due to already existing strict federal environmental regulations for emissions from coal combustion, and the economics of meeting these regulations, and because BPU has coal contracts which must be honored, and because under free market competition BPU has begun burning Kansas gas which reduces spot purchases of out of state coals, the BPU requests you allow the free market purchases of boiler fuels to continue, and urges your disapproval of Senate Bill 201.

Thank you.

Testimony Before

SENATE TRANSPORTATION AND UTILITIES COMMITTEE

SB 201
Mandatory Burning of Kansas-Mined Coal

By Tom Taylor
KPL GAS SERVICE
Manager, Governmental Affairs

March 6, 1989

KPL Gas Service opposes SB 201 because it would cause a large and unnecessary increase in electric consumers' bills. This legislation would require Kansas utilities that use coal to generate electricity, to burn 10 percent Kansas coal. In addition to the costs, this proposal would cause more air pollution problems.

KPL Gas Service has spent hundreds of millions of dollars over the past 20 years to build one of the most efficient electric generating plants in the country; the Jeffrey Energy Center in Pottawatomie County. It uses the most non-polluting coal available: low-sulfur and low-cost Wyoming coal. We have converted our other two major coal generating facilities to Wyoming coal also: Tecumseh Generating Plant east of Topeka and the Lawrence Generating Plant.

Largely because of our efforts to utilize Wyoming coal, our customers have electric rates about 10 percent below the national average. This is a competitive edge in utility rates that benefits Kansas' economic development and we want to protect our edge.

Our generating plants simply cannot use Kansas coal as they stand today. They were built especially for a particular type of Wyoming coal (Jeffrey Energy Center), or they have been

-more-

modified to use it (Tecumseh and Lawrence). Wyoming coal is vastly different in hardness, cleanliness and sulfur content from Kansas coal. The air pollution equipment at our plants -- at Jeffrey alone, $176 million dollars worth -- was specifically built to work with Wyoming coal and its particular level of emissions.

If we had to burn a certain percentage of high-sulfur Kansas coal we would have to convert our plants at an enormous cost. Because Kansas coal has a higher ash content, it is more abrasive and that could mean increased maintenance costs associated with burners, coal grinding mills, air pollution equipment and piping. It could also mean extra costs for additional flyash disposal and possible slagging in the boilers. Since the plants were built for one kind of coal only, we would have to build new blending facilities. The pollution control equipment -- our existing scrubbers -- would have to be redesigned for higher levels of sulfur dioxide and nitrogen oxide which would result due to burning high-sulfur coal. Three of our coal burning units (at Lawrence and Tecumseh) have only electrostatic precipitators which remove particulate matter but no SO2 or NOx, therefore completely new scrubbers would have to be installed.

There would be an additional tremendous cost in voiding or changing the long-term contracts we already have for the Wyoming coal. You simply cannot compare the cost per ton of Kansas coal verses Wyoming coal, without considering all of these extra costs. Under our Wyoming coal contracts, we have a proven source of supply; dependable, reliable, consistent, available for the life of the plant (through at least 2013) at an assured low cost. There is no reason to jeopardize that.

The Kansas Coal Commission's study makes several recommendations, some of which are currently being proposed as Senate bills. But, it does not recommend a mandatory burn law. In fact, the report specifically singles out the Jeffrey Energy Center and says without JEC, the amount of Kansas coal that other plants in the state could use would be so small, that mandatory burn requirements would be impractical or useless. The report goes on to say there are various factors, including JEC's proximity to Wyoming, that make it "impossible" for Kansas coal to be competitive at JEC.

Therefore, this bill would penalize those companies that built and operate the Jeffrey Energy Center -- KPL, KG&E, Centel, and Missouri Public Service Company -- and our customers. It would penalize us for building one of the most efficient and non-polluting plants in the country and one which consistently provides some of the lowest priced electricity to Kansans.

This measure is promoted as economic development for the coal industry in Southeast Kansas. What it would do is require Kansas electric consumers in every area of the state to subsidize -- through higher rates -- a private industry. The conversion costs and voided contracts I've just mentioned would mean higher rates; millions of dollars more. KPL Gas Service has competitive electric rates. Anything that adds unnecessarily to the cost of electricity hurts Kansas economic development efforts. The higher electric rates go, the less opportunity we will have to attract new business, and the greater the risk of losing existing business.

The federal administration and Congress have made it very clear they plan to work for acid rain legislation this year, making pollution standards even tougher. It would make no sense to spend millions of dollars converting plants that now meet EPA standards into plants that put out additional pollutants, and then possibly end up having them shut down altogether because of new emission standards.

As you have heard, Oklahoma recently instituted a mandatory burn law. It is being contested in the courts, and an unfavorable ruling by the courts against Oklahoma would also set a precedent for such mandatory burn laws elsewhere, including Kansas. We could spend a tremendous amount of money complying with a mandatory burn law, only to have it overturned by the courts. And, the losers in that scenario are the electric customers who get stuck with higher rates.

I testified yesterday before the Senate Assessment and Taxation Committee in support of bills (SB 227, SB 228, SB 269 and SB 271) that encourage and reward those who are able to use Kansas coal by providing incentives, such as tax credits and sales tax exemptions, rather than mandating penalties for making someone use it, or making them pay a higher price to use it, as SB 201 does. We firmly believe that using the "carrot" approach is much better than the "stick." We urge you not to support SB 201 because adding millions of dollars to our operating costs would be an unnecessary burden on Kansas electric customers and would take away our competitive edge. Thank you.