Approved Ken Grotewiel
Date 2/5/91

MINUTES OF THE HOUSE COMMITTEE ON ENERGY & NATURAL RESOURCES.

The meeting was called to order by Representative Ken Grotewiel at
Chairperson

3:30 ~~a.m.~~/p.m. on January 31, 1991 in room 526-S of the Capitol.

All members were present except:

Representative Webb, excused

Committee staff present:
Raney Gilliland, Principal Analyst, Legislative Research
Mary Torrence, Revisor of Statutes' Office
Pat Mah, Legislative Research
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

John E. Hayes, Jr., Chairman of the Board, President, and Chief Executive Officer, Kansas Power and Light Company.
Wilson Cadman, President and Chief Executive Officer, Kansas Gas and Electric Company
Ronald Stryker, Kansas Alliance for Fair Competition, Inc.

Chairperson Grotewiel called the meeting to order and opened the hearing for opponents of HB 2029.

John E. Hayes, Jr., Chairman of the Board, President, and Chief Executive Officer of the Kansas Power and Light Company, testified in opposition to HB 2029. Mr. Hayes stated that passage of this bill would deny KPL and KG&E's customers the benefits of the merged companies. He also stated that the merged entity will realize substantial cost savings and other benefits through operational and structural synergies. He displayed a chart showing proposed benefits of this merger:

1. No rate increase for KPL customers.
2. $15 million rate decrease for KG&E customers.
3. Cost of merger completely paid from merger-related savings.
4. No new base load power plant until after the year 2000.
5. Improved service to customers - one source for service.
6. Expanded energy conservation programs.
7. KPL & KGE rate structures remain separate.
8. No merger-related employee layoffs.
9. Increased economic development support for the State of Kansas.

Mr. Hayes also responded to questions from Committee members. (Attachment 1)

Wilson Cadman, President and Chief Executive Officer, Kansas Gas and Electric Company, testified in opposition to HB 2029. He stated that the main problem with this bill centers in Section 1(a) which would disallow recovery of any premium costs through rates; this would mean that all merger benefits would flow to customers and none to owners. He also stated that in the KPL/KG&E merger, they are proposing to recover premium costs only out of cost savings created by the merger and to share with customers all savings above such costs. Mr. Cadman responded to questions from Committee members. (Attachment 2)

Ronald Stryker, Kansas Alliance for Fair Competition, testified that even though they do not have a formal position on HB 2029, they ask the Committee to consider the problem of utility cross subsidization and the problems faced by the small business persons trying to compete against a regulated monopoly in their community. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ENERGY & NATURAL RESOURCES,

room 526-S, Statehouse, at 3:30 ~~a.m.~~/p.m. on January 31, 1991.

Chairperson Grotewiel closed the hearings on HB 2029.

Additional written testimony on HB 2029 was submitted by:

Randy Burleson, Empire District Electric Company (Attachment 4)

The meeting adjourned.

ENERGY & NATURAL RESOURCES

GUEST LIST

COMMITTEE: ______________________ DATE: 1/31/91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim Ludwig	Topeka	KPL
Jack Shriver	Topeka	KCC
John C. Bottenberg	Topeka	KPL
Bill Brown	Topeka	KPC
Kent Brown	Wichita	KG&E
Bob Rives	"	"
Laura McClure	Glen Elder	
Patti Hackney	Lawrence	—
Shaun McGrath	Topeka	KNRC
Joyce Wolf	Lawrence	Ks. Audubon Council
Frank Caro	Kansas City	—
Jamie Schwartz	Topeka	Bishop Group
[illegible] Bunten	"	KG&E
Charles Garcia	"	KCC
Scott Stockwell	"	KCC
George Goebel	Topeka	CCTF-AARP SLC
Lois Tully-Gerber	Topeka	KEURP
Curt Carpenter	Great Bend	Centel
Treva Potter	Topeka	Peoples Nat. Gas
Bill Ohlemeier	Topeka	Ks. Electric Co-ops
Marshall Clark	Topeka	KS ~~Elec.~~ Co-ops
James Power	Topeka	KDHE
Mary Ann Bradford	Topeka	LWVK
Dan Haas	Overland Park	KCPL
Steve Kearney	Topeka	Pete McGill

ENERGY & NATURAL RESOURCES

GUEST LIST

COMMITTEE: ______________________ DATE: ____________

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Charles H. Nicolay	Topek	Ks Oil Marketers Assn

Testimony - House Bill 2029

John E. Hayes, Jr.

House Energy & Natural Resources Committee

January 31, 1991

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you today.

My name is John Hayes and I am chairman of the board, president, and chief executive officer of The Kansas Power and Light Company. I appear in opposition to House Bill 2029, relating to public utility mergers.

BACKGROUND TO THE KPL-KG&E MERGER:

KPL and KG&E previously held discussions about combining the operations of our two companies. However, KG&E did not initiate specific discussions with us about a friendly merger until Kansas City Power & Light made a hostile offer for KG&E on July 23, 1990.

Each company hired industry consultants and financial advisors to assist management in evaluating the feasibility and benefits of merging the two companies. Only after intensive study, careful analysis of the financial costs, and study of potential benefits to customers, shareholders, and employees of **both** companies, plus the state of Kansas, did the KPL and KG&E Boards of Directors unanimously agree to this proposed merger.

BENEFITS OF THE MERGER:

The combined companies will be stronger than either KPL or KG&E can be as individual companies. The larger company will realize substantial cost savings and other benefits through operational and structural synergies.

* The KPL-KG&E combined companies will offer an immediate $15 million rate reduction for KG&E retail customers. The reductions are possible only because of the savings which the two companies will realize from the merger. KPL customer rates are unaffected.

* Estimated merger savings over 5 years: $140 million

Examples of merger-related savings include, but are not limited to:

- Consolidated service operations:
  - approximately two-thirds of KG&E electric customers are also KPL gas customers
  - Over 5 years, merged companies save approximately $76 million through attrition of duplicate personnel (e.g.,

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Attachment 1

meter reading, billing, customer service, headquarters support staff, etc.)
  * Over 5 years, merged companies save approximately $5 million by eliminating duplicate facilities (e.g., offices, warehouses)
  * Over 5 years, merged companies save approximately $4.5 million by eliminating duplicate vehicles (single service vehicle for combined gas and electric operations)

* Reduced overhead:
  * KG&E remains headquartered in Wichita, KPL Southern Region gas operations incorporated into KG&E subsidiary of KPL
  * Over 5 years, merged companies save approximately $639 thousand in audit fees.
  * Over 5 years, merged companies save approximately $2.7 million in risk management insurance costs.
  * Over 5 years, merged companies save approximately $10.7 million through inventory consolidation/management
  * Save customers postage by sending only one bill containing usage charges for both electricity and natural gas

* Consolidated fuel, maintenance, and central dispatch savings:
  * Over 5 years, merged companies save approximately $33 million

* Coordinated economic development:
  * Combined companies better able to recruit new businesses and coordinate economic development rate incentive programs
  * Combined companies provide the convenience of single energy supplier
  * Better provide assistance to KS. Dept. of Commerce by developing coordinated advertising campaigns and offering additional business incentives

* Delay new base load power plant construction:
  * No new base load construction before year 2000
  * Power available for sale to regional utilities in need
  * Customer conservation programs enhanced

* Other benefits:
  * Internal Company financing for customer gas service line replacement program means lower costs
  * KPL and KG&E electric rate structures remain separate
  * Better positions KPL to meet challenges and opportunities of energy policy deregulation
  * To achieve the $140 million merger related savings, KPL will spend approximately $11 million of the savings to enhance our ability to combine

House Bill 2029:

Passage of House Bill 2029 denies KPL and KG&E's customers the benefits of the merged companies. We will not place our Company's financial position in jeopardy by going forward with the merger under the terms of this bill.

We will be able to cover the cost of the merger without raising our customers' rates.

If we are unable to use merger-related cost savings for merger expenses, the combination of companies does not make any sense.

The bill also addresses the issue of executive employment compensation contracts. These were developed by KG&E in response to the hostile takeover attempt; they will not be a factor in the friendly KPL-KG&E merger. KPL management does not have executive employment compensation contracts.

THE MERGER APPROVAL PROCESS:

House Bill 2029 is unnecessary as a vehicle to protect the consumers of Kansas. The terms and conditions of this proposed merger must face the scrutiny of:

* Regulatory agencies - The merger must be approved by the Kansas Corporation Commission, Missouri Public Service Commission, The Federal Energy Regulatory Commission, Securities and Exchange Commission, Nuclear Regulatory Commission, U.S. Department of Justice, and the Federal Trade Commission.

  * The Kansas Corporation Commission (KCC) has already held public hearings regarding the proposed merger in Topeka, Wichita, Independence, and Overland Park.

  * Intervenors in the merger filing with the KCC include, among others, the Citizens' Utility Ratepayers Board (CURB).

  * The KCC has scheduled technical hearings on the proposed merger beginning March 4, 1991. Commission staff and their outside consultants will have spent months reviewing the documents associated with the filing.

* Shareholders - Both KPL and KG&E have scheduled special shareholder meetings on March 19, 1991, to discuss the merger and determine whether both groups of shareholders approve.

* Financial community - The national and regional banking community is sufficiently convinced this combination of companies is desireable that they oversubscribed the line of credit to finance the merger.

The regulatory process is long, difficult, and thorough as the best interests of customers, shareholders, the states of Kansas, Missouri, and Oklahoma, the United States national energy interests, and the companies are evaluated.

Mr. Chairman, I respectfully recommend that the Committee not approve House Bill 2029 for passage.

Wilson Cadman
Kansas Gas and Electric Company
Before the House Committee on
Energy and Natural Resources
January 31, 1991

Mr Chairman, members of the committee. Thank you for the opportunity to comment on House Bill 2029.

Kansas law already requires the Corporation Commission to review and approve, prior to consummation, any merger or acquisition involving electric utility companies which operate in Kansas. To approve such a transaction the KCC must find, at a minimum, that it does not conflict with the public interest. That process is underway right now for the proposed KPL/KG&E merger.

The main problem with House Bill 2029 centers in Section 1(a) which would disallow recovery of any premium costs through rates. This would mean that all merger benefits would flow to customers and none to owners. In the KPL/KG&E merger, we are proposing to recover premium costs only out of cost savings created by the merger and to share with customers all savings above such costs. Even with premium costs included in rates, we expect our rates to be lower than if we had not merged. An absolute prohibition against recovering premium costs through rates would throw out the baby with the bath water. With the proposed law in place, utility owners would have no incentive to consider mergers and the KCC would have no reasonable means to encourage them, even when they are consistent with the public interest as this one is.

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Attachment 2

I can think of no other scenario which promises to provide the same benefits to Kansas electric power users as does the planned KPL/KG&E merger. To preemptively outlaw it makes little sense from any point of view.

Testimony before the
HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES

January 31, 1991

By Ronald A. Stryker of the Kansas Alliance for Fair Competition, Inc.

Mr. Chairman and members of the committee. My name is Ron Stryker. I speak to you today as the chairman of the Kansas Alliance for Fair Competition, Inc. Our alliance is a coalition of individuals, small business persons, and their associations primarily in the plumbing, heating, air conditioning, and electrical trades across the state of Kansas.

While our coalition has not taken a firm position as a proponent or opponent of the merger of utilities in this state, or for that matter the success of House Bill No. 2029, there is language in the bill that strikes very close to the purpose for which our Alliance was formed.

Section 1 of House Bill No. 2029 addresses the very unique position utilities enjoy in the business market place. A utility, through the rate review process administered by the Kansas Corporation Commission is insured a return on any asset or recovery of any operating expense that passes this review. There are plenty of opportunities for utilities to hide expenses in their financial accounting, such as executive compensation arrangements offered as part of a merger, that are not necessary for their primary function, the distribution of energy.

In the industries represented by the members of our coalition, utilities can misallocate expenses incurred to compete against the independent heating, cooling, or electrical contractor to their regulated utility business. Expenses for salesmen, bill stuffers, market data, consumer financing, office space, or even water heaters given at no charge to consumers as incentives to use the utility's power all can find their way into the utility rate base. We are told these expenses may be misallocated to advertising or promotional accounts for the regulated utility business. When this misallocation occurs the rate payers of Kansas subsidize the utility to compete against small business.

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attachment 3

Cross subsidization is a term used to describe what happens when a utility's assets, personnel, equipment or facilities, which are paid for by the rate payers of Kansas are used to compete against small businesses in non-utility areas. Cross subsidization by regulated public utilities whether to support an operation to install appliances, a contracting enterprise to do electrical lighting, or an executive stock option awarded to accomplish a utility merger is a bad deal for the Kansas consumer and must be stopped. Why should the Kansas consumer indirectly have to pay for the utilities to venture out into non-utility areas.

Even though we do not have a formal position on House Bill No. 2029, our coalition asks the committee to consider this problem of utility cross subsidization and the problems faced by the small business persons trying to compete against a regulated monopoly in their community.

Thank you

TESTIMONY BEFORE THE HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE, JANUARY 31, 1991

HB 2029

CHAIRMAN GROTEWIEL AND MEMBERS OF THE COMMITTEE, MY NAME IS RANDY BURLESON AND I REPRESENT THE EMPIRE DISTRICT ELECTRIC COMPANY. EMPIRE ELECTRIC IS AN INVESTOR-OWNED COMPANY SERVING APPROXIMATELY 116,000 CUSTOMERS, 9000 OF WHICH ARE LOCATED IN CHEROKEE COUNTY, KANSAS. THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO RECORD OUR POSITION ON HB 2029

EMPIRE ELECTRIC IS OPPOSED TO HB 2029. WE BELIEVE THE CORPORATION COMMISSION ALREADY HAS THE LATITUDE NEEDED TO INSURE THE RATE PAYERS OF KANSAS ARE TREATED FAIRLY IN THE EVENT OF A MERGER. ADDITIONAL LEGISLATION SUCH AS THIS WOULD NULLIFY THE POTENTIAL BENEFIT OF A MERGER. THIS WOULD NOT BE IN THE BEST INTERESTS OF OUR CUSTOMERS, EMPLOYEES, OR STOCKHOLDERS.

FOR THESE REASONS WE OPPOSE HB 2029.

THANK YOU.

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Attachment 4