

Approved: Carl Dean Holmes
Date 3/13/96

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES.

The meeting was called to order by Chairperson Carl Holmes at 3:35 p.m. on February 6, 1996, in Room 526-S of the Capitol.

All members were present except:

Committee staff present: Raney Gilliland, Legislative Research Department
Dennis Hodgins, Legislative Research Department
Mary Torrence, Revisor of Statutes
Marcia Ayres, Committee Secretary

Conferees appearing before the committee: The Honorable Doug Lawrence, Representative, 9th District
The Honorable Tom Sloan, Representative, 45th District
Larry Holloway, Kansas Corporation Commission
Louis Stroup, Jr., Kansas Municipal Utilities, Inc.
Jon Miles, Kansas Electric Cooperatives, Inc.
David E. Martin, Kansas City Power & Light
Bill Craven, Kansas Resource Council
Don Moler, League of Kansas Municipalities
Steve Miller, Sunflower Electric Power Corporation
Randy Burleson, Empire District Electric Company
John W. McKinney, Utilicorp United Inc.
Jim Ludwig, Western Resources, Inc.
Don Schnacke, Kansas Independent Oil & Gas Association
Bruce Graham, Kansas Electric Power Cooperative, Inc.
Bill Fuller, Kansas Farm Bureau
Gene Argo, Midwest Energy
David J. Heinemann, Kansas Corporation Commission

Others attending: See attached list

Chairperson Holmes opened the meeting by asking the members to clean out their committee folders and announced the bills that would be on General Orders on the House floor tomorrow.

Hearings on HB 2623: Implementation of form of competition between retail electric suppliers & HB 2600: Task force on retail wheeling established

The Honorable Doug Lawrence. Representative Lawrence provided background on **HB 2600** which he helped craft with the interim committee. (Attachment #1)

The Honorable Tom Sloan. Representative Sloan spoke in support of **HB 2623**. (Attachment #2)

Larry Holloway. Mr. Holloway discussed some of the costs and benefits of **HB 2623**. The Kansas Corporation Commission does not support or oppose this legislation. (Attachment #3)

Louis Stroup, Jr. Mr. Stroup testified in opposition to **HB 2623** and in support of **HB 2600** as written but with one amendment. (Attachment #4)

John Miles. Mr. Miles testified in opposition to **HB 2623** and in support of **HB 2600** based on the belief that the impact of retail competition should be studied before it is implemented. (Attachment #5)

David Martin. Mr. Martin recommended that **HB 2623** not be passed, but rather the bill's retail wheeling concepts be added to the list of study topics contained in **HB 2600**. (Attachment #6)

Bill Craven. Mr. Craven expressed the views of the Natural Resource Council and the Kansas Sierra Club regarding **HB 2623** and **HB 2600**. (Attachment #7)

Don Moler. Mr. Moler testified in opposition of **HB 2623** and in support of **HB 2600**. (Attachment #8)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ENERGY AND NATURAL RESOURCES, Room 526-S Statehouse, at 3:30 p.m.. on February 6, 1996.

Steve Miller. Mr. Miller urged favorable consideration of HB 2600 and opposed HB 2623. (Attachment #9)

Randy Burleson. Mr. Burleson appeared in support of HB 2600 but had two requests regarding the bill. (Attachment #10)

John McKinney. Mr. McKinney testified in support of HB 2600. (Attachment #11)

Jim Ludwig. Mr. Ludwig testified as a proponent of HB 2600. (Attachment #12)

Don Schnacke. Mr. Schnacke appeared in favor of passage of HB 2600 but offered suggested amendments. (Attachment #13)

Bruce Graham. Mr. Graham commented in support of HB 2600. (Attachment #14)

Bill Fuller. Mr. Fuller expressed support for HB 2600. (Attachment #15)

Gene Argo. Mr. Argo testified that the proposed legislation provides a logical approach to address the needs of the consumer, large and small. (Attachment #16)

David Heinemann. Mr. Heinemann appeared on behalf of the Corporation Commission and welcomed the opportunity to work with the legislature to develop recommendations regarding the promotion of competition in the furnishing of retail electric service. (Attachment #17)

Two constituent letters received by Representative Joann Freeborn were distributed to the committee members. (Attachments #18 and #19)

The Chair opened up the hearing to questions of the conferees after which the hearing was closed.

Chairperson Holmes distributed maps that had been requested from the Kansas Water Office and announced that a bill may be worked tomorrow.

The meeting adjourned at 5:05 p.m.

The next meeting is scheduled for February 7, 1996.

ENERGY AND NATURAL RESOURCES COMMITTEE
COMMITTEE GUEST LIST

DATE: February 6, 1996

NAME	REPRESENTING
Hugh Taylor	BPU-KC
JOE DICK	BPU KCK
Steve Miller	Sunflower
J.C. LONG	UtiliCorp United, Inc.
DAVID SCHLOSSER	PETE McGill & Assoc.
LESTER MURPHY	KEC
Don Holthaus	Western Resources
Jim Ludwig	WRI
Don Schnuck	KIOGA
JOHN MCKINNEY	UtiliCorp United Inc.
Larry Holloway	Kansas Corporation Comm.
Robert A. Top	UtiliCorp United Inc.
Bill James	BOEIN
STUART LOWRY	KANS. ELEC. COOP.
BRUCE GRAHAM	KEPCO
LEW JENE SCHNEIDER	Ks. Livestock Assoc.
Don Miles	KEC
Louie Stroup Jr.	KANSAS Municipal Utilities
BERT CANTWELL	KCK Chamber of Commerce

ENERGY AND NATURAL RESOURCES COMMITTEE
 COMMITTEE GUEST LIST

DATE: February 6, 1996

NAME	REPRESENTING
Patrick Hurley	KCPH
Susan Cunningham	KCPH
David Martin	KCPH
Cliff Franklin	Leg.
HANS MERTENS	KPL
Tommy Lynn	Midwest Energy
Shades Reese	Midwest Energy
WALKER HENDRIX	CURB
Thomas Hunt	Jones-Scott Electric
Doug Shepherd	KS Elec. Corps
Randy Backson	Empire District Electric
Whitney Dameron	Empire District Electric
TOM DAY	KCC
Mike Taylor	City of Wichita
Blenda Carter	KCC
Rebecca Rin	Midwest Energy

VERBATIM TESTIMONY OF DOUG LAWRENCE BEFORE THE HOUSE ENERGY &
NATURAL RESOURCES COMMITTEE

February 6, 1996
Regarding HB 2600

Thank you, Mr. Chairman, I appreciate the opportunity to speak to you just real briefly, and I attempted this weekend to write down my comments for the Committee and I got started on an odyssey about property taxes and the competitive marketplace that distracted me so my written testimony will follow shortly after.

As you may or may not be aware, I am chairing a Select Committee on Telecommunications. That committee meets at 1:30 today in this room, is about as crowded as our room is every day as we take a look at some of the telecommunications issues before the State. I think that it's interesting as the Telecommunications Committee takes up the issue of competitive--the change that the telecommunications business to a competitive market place, that many of the issues that we're dealing with and facing are the same issues you're going to hear something about today as we talk about retail wheeling.

And with that in mind, I wanted to--I served on the summer interim committee, and I, along with Representative Franklin, worked together to craft House Bill 2600 which is one of the bills we hear today. This language was crafted, and it was really kind of modeled after what happened in the telecommunications business with SCR 1617, I think, a couple of years ago. Essentially what we had happen in telecommunications was an 18-month study where all of the industry players sat at the same table, and I want to tell you first of all, it was contentious, there was a lot of disagreement, but I think that 18-month study was worth while because we now know as we take up these issues where the controversy lies and where it doesn't lie. And so as the legislature starts to work toward the resolution of the issue of competition in the telecommunications business, we know where everyone agrees and where people don't agree and that allows us to work.

In telecommunications we had federal--everything we did was kind of--

there was something hanging over our heads called federal legislation, and we have an answer to that now. Last week the federal legislation was passed. It may be later this week or maybe next week or maybe in six months from now we'll know exactly what the meaning of that federal legislation is, but for the certain we are starting to get a handle on it.

I just want you to know, my district includes a large power plant, obviously, and I have a great deal of interest in the electric utility business. As difficult and contentious as the telecommunications industry is, it's small potatoes by comparison of what we are talking about here in the electricity business. I think that the telecommunications work that our telecommunications committee is about to work out, may provide a road map in some areas, but it doesn't answer a lot of questions. You know, we have social implications in telecommunications--or in the electric business--that there's no counterpart in the telecommunications business: things like environmental issues that are affected by what we do in retail wheeling.

And we have issues like tax implications. I wanted to address these two just to give you an example of why this, I think, deserves at least an 18-month study and deserves some rather extraordinary action on the part of the legislature. I'm not speaking as necessarily a proponent for any bills, but I think you need to understand--well, I am a proponent for 2600, but I--tax implications alone very important.

You talk about creating a competitive market place. A public utility in the state of Kansas is assessed at 33%. A regular, if you will, business industry in the state is assessed at 25%. There is a significant difference in the tax treatment of those businesses. However, in the area of retail wheeling or telecommunications, it is very possible that someone may get into the electric business that would not be what you'd call a public utility so there would be a big disparity in the taxing structure.

Another issue in the tax area--and, for example, in telecommunications we can decide maybe to provide the phone companies with a break in their taxation in order to reduce them from 33 to 25%, but in telecommunications that gift to the state general fund and to local units of government could very well be twenty million dollars. Very difficult to

make that transition.

On the other hand, how do you move everyone that touches the telephone business up to 33% and still have a fair playing field? That's a very complicated issue in telecommunications, and it's extraordinarily so because you add power plants out of state generating electricity consumed in state that has an entirely different tax treatment that we have no control over, and whether or not there is essentially a level playing field or the fact that our tax policy may be encouraging development of electrical generation capacity out of state. So that we burn the electricity but we don't have an assessed valuation of the jobs within the state. So there are some very complicated issues there.

And the social implications--there's been an interest over the years to use what's called a social contract between the KCC, the regulators, and the regulated utility to accomplish public service goals. The concept of encouraging conservation of energy uses. Do those go out the window if we open up the competitive market place and whoever is the lowest cost producer can simply come in and enter that market place and change the long-term contracts?

I am not going to go through the whole retail wheeling issue. I just want you to know that as daunting as telecommunications is, that I think it's child's play compared to what we are going to be dealing with in the electric utility business and it does require some extraordinary action on our part in taking this issue on. As such, I think that it's very appropriate that the legislature take on a long-term study. I think that one of the things we have to look at is, we have to fundamentally question how we regulate the existing industry and maybe even change the rules and regulations before we even open the vote with the market place for competition.

Those are issues that have to be addressed in the next 18 months which is what I think House Bill 2600 does a lot. With that I would, I guess, stand for questions for those who would like to, but I'm certainly available for questions at any time for any one.

TOM SLOAN
 REPRESENTATIVE, 45TH DISTRICT
 DOUGLAS COUNTY

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HOUSE OF
 REPRESENTATIVES

COMMITTEE ASSIGNMENTS
 MEMBER: AGRICULTURE
 LOCAL GOVERNMENT
 ENERGY & NATURAL RESOURCES

Testimony on HB 2623

Mr. Chairman, Members of the Committee, HB 2623 is one of the more complex bills we will consider this year and yet it is based on several simple, basic truths - reliable, affordable electric service should be available to all Kansans; existing electric suppliers and their shareholders/members should not be financially punished by changes in the regulatory environment; growth in customer electric needs should be met; and the regulatory role of the Kansas Corporation Commission as it relates to protecting electric customers, should be maintained even as deregulation and competition in the industry increases.

Outline of the Problem:

National discussions regarding deregulation of the electric industry have followed the same general patterns established by the telecommunications, natural gas, airline, and trucking industries. In other words, the two primary areas of focus have been:

1. Increasing ease of entry to the marketplace so more competition occurs, and
2. Having prices reduced as a result of the increased competition.

Both are laudable objectives and, in an era of multi-billion dollar utility company mergers and acquisitions, are very achievable. However as we have seen, customers suffer the consequences of well-intentioned and attractively marketed airline companies going out of business and stranding these same customers. Long distance telecommunications companies suddenly close and leave customers without service. Airline travel and long-distance telephone services are not as essential as electric service, so we as legislators must be even more concerned about protecting our citizens from potentially destructive competition.

We also have seen "cream skimming" or "cherry picking" occur where the best customers, usually large industrials, benefit from competition and the rest are left to struggle. As legislators, we must be concerned about ensuring our constituents' health and well-being. Universal, affordable electric service is a vital component.

KEY FEATURES OF HB 2623

Competition and change are coming to the electric industry. Nothing this legislature does will prevent it. However, Kansas does not need to wait for other states to act. Our interests and concerns are different from many of those states and not all of the best minds on this subject live outside Kansas.

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1. The highest objective is to ensure all Kansas customers have affordable, reliable electric service.
2. The second highest priority is to protect the investments made by utility shareholders, rural electric co-op members, and municipal taxpayers.
3. The third priority is to permit competition which will provide the potential for price reductions AND reliable/quality power and acceptable customer service.
4. The fourth priority is to provide the opportunity for electric companies to profit from the structured, competitive environment developed, and
5. The fifth priority should be to ensure a customer protection role for the Kansas Corporation Commission, while allowing the KCC and existing state utilities to cooperatively resolve as many technical issues as possible in evolving energy and regulatory arenas.

OUTLINE OF BILL'S IMPLEMENTATION FEATURES AND RATIONALE:

1. KCC and existing utilities divide the state into "customer service blocks", each containing industrial, commercial, and residential customers. The blocks will reflect existing utility infrastructures to the extent possible.

The least profitable, and hence least desirable customer class for any utility is residential. This is because the cost of serving a small customer is proportionately greater than to serve a large one. Correspondingly, the return on utility company investments are greater with large customers than small. This is even more true when the small customers live in rural areas. Unless an electric provider is required to serve all classes of customers, the likelihood is that residential customers will not benefit from competition and will pay increasingly higher costs to maintain electric service as large customers take advantage of alternative suppliers.

2. The KCC will evaluate prospective electric suppliers to each customer block on the basis of economic benefits to customers and reliability, efficiency and quality of customer service.

Competition will result in many alternative electric providers seeking to serve customers, often at prices lower than those charged today. However, will consumers intelligently evaluate the offers? HB 2623 provides that the KCC will ensure that consumers are protected by evaluating not just the price of electricity, but also the potential supplier's ability to reliably provide that power, and provide customer service, including storm damage repair.

The bill does not specify how these services must be provided (e.g., by the electric supplier or on a contract basis, for the supplier), but does require the KCC to take them into account before making a decision and awarding permission to serve Kansas electric customers.

3. The KCC will also determine the reasonableness of the current provider's proposed charges for using previous capital investments in transmission and distribution facilities in the customer block, as well as stranded investment in generation facilities.

Corporation commission review of proposed charges will accomplish two things: first, it guarantees competition will be fair and the price of electricity will be as low as possible. Second, that previous investments in generating, transmission, and distribution facilities will not be lost. Thus, both customers and shareholders/members interests are protected, while competition is encouraged.

4. Rural Electric Co-ops and municipal electric utilities may opt out of this bill by a vote of their members/customers.

Competition will not respect artificial constraints like city limits. Commercial and industrial customers will be targets for competitive electric suppliers and those customers will leave the municipal and cooperative systems if price is the only consideration.

However, recognizing that many municipal electric utility systems are a substantial alternative revenue source for cities and that Rural Electric Co-ops have provided services investor-owned utilities traditionally have not, HB 2623 provides a way for such systems to avoid inclusion in a customer block. A vote of the REC members or municipal residents can keep them out of the competitive provisions of this bill. If the Rural Electric Co-op board and municipal officials can convince their customers that existing services outweigh lower prices and the KCC's consumer protection watchdog role, then the status quo can be maintained.

But if the members and voters choose to participate, the provisions of HB 2623 protect their previous investments in generation, transmission, and distribution equipment. Not only is this true democracy in action, but it allows the KCC to safeguard the level of electric service and the recovery of previous investments. Thus, it addresses both the situations. If municipal systems and Rural Electric Co-ops are successful in convincing their voters/members to try and escape the realities of competition by opting out of the bill and the situation where municipal voters or REC members prefer to come under the competitive and protective aspects of the bill.

5. The beneficial aspect of competition continues as the KCC may award customer blocks for periods of 3 - 5 years and provide for the supplier's recovery of new capital investments.

Balancing the need to ensure that electric customers have the opportunity to receive the lowest possible rates and the need to ensure the electric companies serving each block have incentive to invest in new technologies and expanded services necessitates the development of reasonable service contracts and the ability to recover investments over time, regardless of what provider supplies electricity to the block. Infrastructure investments made in a block would be part of the capital investment recovery process of the next bidding process. In other words, all potential bidders on that customer block would have to include the KCC's approved investment recovery rate/charges for those projects in all bids.

6. Other issues of note: The KCC presently has important social responsibilities endorsed by the legislature. These include imposing a cold weather rule preventing the disconnection of utility service during the winter, even for persons unable to pay their utility bills; and permitting utilities to support worthy community organizations by encouraging charitable contributions with some rate payer monies.

Protecting the well-being of our communities and less affluent citizens requires a continued regulatory role by the KCC. HB 2623 permits this oversight function, while encouraging potentially lower electric prices through the competitive process.

7. In conclusion, this bill carefully balances:
 - a. The right of customers to have the lowest reasonable electric prices.
 - b. The right of customers to have the highest reasonable levels of customer service and electric reliability.
 - c. The right of shareholders/members/taxpayers to recover their prudent investments in electric generation, transmission, and distribution systems made during a non-competitive political/regulatory environment.
 - d. The investment recovery needs of electric providers to properly serve customers.
 - e. The role of the Kansas Corporation Commission to protect customer and electric provider interests.
 - f. The uniqueness of rural electric cooperatives and municipal systems.
 - g. The values of the democratic process and free-market economy.
 - h. The desire of legislators to ensure that the benefits of electric competition are available to all customers - industrial and residential, urban and rural, rich and poor - with adequate safeguards.

Necessary protections for all parties are in this bill. Competition in the electric industry is coming no matter how hard some utility interests and legislators may want to prevent it. Kansas will be the national leader in electric industry deregulation-customer protection with passage of this bill.

I request that this committee recommend HB 2623 favorably for passage.

Bill Analysis and Summary
for
H.B. 2623
sponsored by
Rep. Tom Sloan

1. What is "Retail Wheeling"?

Retail wheeling occurs when a local utility provider is required to move or "wheel" power produced by another power generator through its lines to a customer in the utility provider's locale. For example, Customer A lives in City 1 served by utility Company X. Customer A later elects to purchase his electricity from Company Y located in City 2. If retail wheeling is allowed, Company X must allow Company Y to transmit power through its lines to customer A.

The concept of wheeling is simple. Imagine five ponds connected by a small pipe. If the ponds are full of water, adding 5 gallons at the first means you can collect 5 gallons at the end. Electric wheeling is the same principle--add a kilowatt at one end and you can use it at the other. It is not the same kilowatt, but it is equal to the original one. The electric companies between the "seller" and "buyer" charge a transmission fee to "move" the power.

2. If a non-local company can provide less expensive electricity, then what is the problem?

The problem is that not everyone may benefit from retail wheeling practices. For example, assume that the hypothetical City 1 referred to above has 1,000 residents and its primary industry is a factory. Further assume that the factory uses 50% of the power generated by the local utility provider and the other 50% is used by the city's residents and commercial businesses.

In an entirely deregulated market, Company Y located in City 2 may choose to sell its power only to the factory and not to the rest of the City 1. This may occur because Company Y's cost of selling in volume to the factory is less and, therefore, its profits are higher. This process is commonly known as "cream skimming" or "cherry picking."

The problem which arises is known as "**stranded costs.**" In this example, the local utility, Company X, has just lost 50% of its revenue. Unfortunately, its fixed costs, including debt incurred in building its plant and providing its lines, are still present. The costs are thus "stranded" without adequate revenue to meet its obligations. **Nationally, estimates conclude that stranded costs will range from \$100 to \$200 billion.**

Another cost incurred is that local utilities must maintain the original generating capacity under its "obligation to serve" compact if the customer later decides to switch back to the local provider. This effectively prevents local providers from adopting cost-

cutting measures further increasing the stranded costs and preventing the local provider from becoming more competitive.

3. Who must bear these "stranded costs"?

The most obvious burden falls on the small commercial, business and residential users who must provide at least part of the difference by way of increased utility rates in order to keep the local utility provider solvent. These increased rates are no small inconvenience to those with low or fixed incomes or to small businesses operating on a low profit margin.

A less obvious burden falls on individuals who have invested in local utility provider stock. Because the local utility provider is prevented from adopting adequate cost-cutting measures to preserve profits under the obligation to serve doctrine, the stock value falls. Consequently, many who have invested their money locally through utility stock stand to lose much of their investment.

4. Is there a way to promote cost benefits to be gained through retail wheeling, while insuring all individuals benefit?

Yes! **H.B. 2623** requires the designation of "customer service blocks" which represent existing utility infrastructure as much as possible. Local utility providers and prospective outside providers then may submit proposals to the KCC in order to serve a customer service block. In the customer service blocks, all users are included. As a result, **everyone benefits from the increased competition**, not just large scale utility users who are "skimmed" off the top.

5. How does retail wheeling affect customer service and beneficial social programs?

In a completely deregulated market, **customer service and beneficial programs may suffer**. Local utility providers have been very responsive in addressing local needs through programs such as low-income energy assistance in times of dangerously hot/cold weather conditions. Furthermore, local companies have a vested interest in prompt restoration of power following storm damage.

Conversely, non-local providers may not share such concern for local community needs. Non-local utility providers also may not have the resources to promptly respond to storm damage, especially if they are located out-of-state. Because electricity is such an integral part of our everyday lives and increasingly essential to our economy, these issues cannot be ignored.

In response to these concerns, **H.B. 2326** includes customer service and social programs as criteria in the selection of a block provider. **Each prospective provider must submit a plan to address these needs** which will be considered in addition to the

proposed price. This insures that electricity will not only be affordable, but also reliable and available to those in need.

6. What are other states doing with respect to retail wheeling?

Thirty states have considered or are considering retail wheeling. The most significant progress has been made by Massachusetts, Michigan, New Hampshire, and New York. Here is a brief survey of where these states stand:

Massachusetts: The Department of Public Utilities (DPU) has called for customer choice, unbundling of generation assets, recovery of utility stranded costs, and maintenance of environmental standards. Some investor owned utilities have been ordered to submit plans complying with this order by February 1996.

Michigan: A five year experimental retail wheeling program for customers of two utilities was approved in 1995. However, this program is only experimental and contingent upon a showing of need for new generation. Stranded cost problems were not addressed.

New Hampshire: A three year pilot-program affecting three percent of the state's electrical load has been adopted. The program includes all customer classes and begins in May 1996.

New York: Full retail competition has been recommended by the Public Service Commission and is pending approval. Stranded costs are to be dealt with on a case-by-case basis with recommendations that recovery methods include both "transmission-access" charges and utility write-offs.

None of these states has addressed the issues of service, electric reliability, community assistance, or the myriad of other issues addressed in H.B. 2623.

Attached is a more detailed discussion of where other states stand on this issue.

BEFORE THE HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE

**PRESENTATION OF THE
KANSAS CORPORATION COMMISSION ON
HB 2623**

The Commission does not support or oppose this bill. While this bill is an innovative concept for introducing competition into the retail electric industry, it does present considerable regulatory challenges. This presentation will attempt to inform the Committee on the type of regulatory effort involved and possible concerns that could arise.

HB 2623 would task the Commission with dividing all of the existing retail electric service territory in the state into customer blocks. The Commission would need to consider not only existing distribution infrastructure but also customer class location. The Commission would attempt to design each customer block to have an equivalent number of residential, commercial and industrial customers. Every 3 to 5 years potential retail suppliers would bid for the right to provide retail electric service in each customer block. The Commission would then award each customer service block to the winning bidder. The new retail electric supplier would be required to compensate the previous supplier for the distribution system and to obtain the necessary wholesale power or generation agreements.

To put this proposal in perspective, it is important to understand some of the other proposals being debated to restructure the electric industry. Most proposals start from the premise that the electric generation segment of the industry would operate more efficiently in a competitive nonregulated environment. These proposals attempt to achieve this in 2 different, but not necessarily separate, restructuring schemes. The retail wheeling advocates would allow each customer to purchase energy directly from a generator or a marketer and compensate the distribution and transmission utilities for the use of their systems. The poolco advocates would select an independent transmission operator and implement a market that allowed generators to "bid" every hour or half hour. All distribution companies would then buy wholesale power at the final bid price. Other proposals allow both an open bidding wholesale market with allowances for retail "buy through" transactions. In any case, the objective is to deregulate generation while recognizing that the

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distribution and transmission functions appear to remain most efficient as regulated natural monopolies.

One of the major concerns for the retail wheeling restructuring scheme is the diversity between different customers. The most common objection to this form of deregulation is that small commercial and residential customers would not benefit because the cheaper generation will be obtained and tied up in long term contracts with large industrial customers. This proposal is an innovative way to avoid that possibility by making sure that the customer blocks contain equal numbers of residential, commercial, and industrial customers. This proposal would also work in a poolco restructuring, however it would probably be unnecessary. This is because the real time bidding market would be available at the same price to all customer blocks, regardless of their size.

The unique feature of this proposal is that it would essentially deregulate all generation by using the retail regulatory authority of the state. Most of the other proposals require some type of action on both the federal and the state level. The Energy Policy Act of 1992 explicitly leaves retail electric regulation up to the individual states. This proposal uses exclusive state jurisdictional authority to accomplish deregulation without requiring federal action.

This proposal does present several regulatory challenges. The Commission would be required to determine the number of customer blocks, determine the specific retail territory for each customer block, design consistent, repeatable and understandable bidding criteria, determine the value of existing distribution assets, allocate costs for existing generation plants and wholesale contracts, selecting winning bidders, set rates, and maintain the customer service block territory. Each of these tasks would provide special challenges.

The first issue to be decided by the Commission would be the number of customer blocks. Too few customer blocks could reduce the number of competitors that have the financial ability to bid for the retail service blocks. Too many customer blocks could create a wholesale buyer that was not big enough to effectively compete with other wholesale buyers in neighboring states. After the number of blocks were determined, the Commission would be required to determine the actual territory for the

customer blocks. While it will be important to divide customer classes between the blocks, it will also be necessary to carefully map and determine capabilities and specific locations of physical distribution facilities. This will present an engineering challenge to determine the correct division of existing service territories with respect for the actual lines, transformers, and other equipment.

The next major Commission policy effort would be to design the bidding criteria. Issues such as how to compare retail supplier bids that differed in rate design, reliability, service guarantees, and facility upgrades and maintenance would need to be determined before bidding could take place. Upon receipt of the bids, the Commission would need to evaluate all proposals and select the winner.

The Commission would be required to determine the costs of stranded wholesale contracts and generation commitments for the existing retail electric suppliers. In addition, the Commission would also need to determine the value of the existing distribution facilities each time the rights to serve the customer block is rebid. This creates a recurring accounting problem which could become quite complex depending on how this compensation were to occur. If, for example, the new service provider is merely required to provide all previous investors with a return on their distribution investment, then the new supplier must know not only the present value of the system, but also the return necessary to satisfy all the previous investors. A detailed consistent accounting treatment of these investments would need to be determined and maintained.

Finally, the Commission would be tasked with maintaining the customer block service territories. This proposal would allow municipal electric utilities and rural electric cooperatives to elect to be exempt from the customer blocks. Whenever this would occur the Commission would possibly need to reform the remaining customer block service territories to assure there still exists an equitable distribution of customers of different rate classes. At a minimum, these service territories would need to be reexamined on a 10 to 20 year basis to account for differing rates of population and industrial growth or decline.

In conclusion, the Commission does not support or oppose this legislation and this testimony is only intended to discuss some of the costs and

benefits of this proposal. Like the retail wheeling and poolco deregulation schemes, this proposal would appear to establish a competitive wholesale generation market, but would require considerably more short term and long term regulatory involvement. Unlike other restructuring methods, this proposal may present some very real benefits by deregulating electric generation by action that can be taken strictly on the state level. The question is whether the benefits of this form of electric industry restructuring outweigh not only the benefits other models, such as retail wheeling or the poolco, but also the costs of additional regulatory involvement.

TESTIMONY OF HB 2623

Before House Energy & Natural Resources Committee
February 6, 1996

Mr. Chairman, members of the committee, I am Louis Stroup, Jr., executive director of Kansas Municipal Utilities, Inc., a statewide association of municipal electric, gas and water cities which was founded in 1928 and whose member cities provide utility services to more than 1 million Kansans.

KMU OPPOSES HB 2623 FOR THE FOLLOWING REASONS

1. The bill is premature. The measure assumes that some form of electric retail wheeling will be implemented in Kansas by December 31, 1997 -- less than 2 years from now. KMU is not ready to concede that retail wheeling is good for Kansas. That is why we support HB 2600 as written so that sufficient study time will be available to determine if retail wheeling is good or bad for Kansas, how it impacts the various customer classes, and especially the potential impacts on rural Kansas and residential customers.

2. The bill places municipal electric cities under KCC jurisdiction for rates. This bill changes existing law by placing municipal electric systems under rate jurisdiction of the Kansas Corporation Commission. We have always opposed KCC rate jurisdiction over municipal electric system rates as an unneeded and unwarranted infringement of local control by locally-elected officials. We also oppose the section subjecting a city to the cost and burden of a possible election every 3 years as being another infringement on locally-elected city officials and an unnecessary expense to the citizens of the communities.

3. There are many unanswered questions in HB 2623. It would seem prudent to look at the overall picture as proposed by HB 2600 prior to passage of any specific legislation such as HB 2623.

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Attachment 4

TESTIMONY ON HB 2600

Before House Energy & Natural Resources Committee
February 6, 1996

Mr. Chairman, members of the committee, I am Louis Stroup, Jr., executive director of Kansas Municipal Utilities, Inc., a statewide association of municipal electric, gas and water cities which was founded in 1928 and whose member cities provide utility services to more than 1 million Kansans.

KMU SUPPORTS HB 2600 AS WRITTEN (with one amendment)

KMU supports House Bill 2600 as written (with one amendment) because:

1. It does not predetermine that electric retail wheeling is good or bad
2. It would create a task force to study the very complex issue of electric retail wheeling
3. It provides for a 3-year moratorium before any radical changes could be made within the industry -- a minimum time period needed to determine the proper route for Kansas to go on this issue
4. It does not provide for "pilot projects" by individual utilities or entities, but assigns this type of responsibility to the proposed task force

OPEN- MINDEDNESS

HB 2600 does not predetermine whether or not retail wheeling is good or bad, or if it is good for large customers and bad for residential customers, or if it would harm the rural areas. It merely provides for an adequate study period to make such determinations. For example, competition on the wholesale level with true access to open transmission may be more suitable and beneficial than implementation of retail wheeling. This bill does not make that determination, but allows the task force flexibility to study all aspects of the industry.

TASK FORCE MEMBERSHIP

The proposed makeup of the task force will allow it to function in an efficient manner. It must not be too large; however, we don't feel municipal electric cities are adequately represented. We are requesting that a second municipal electric representative be added -- the Kansas City Board of Public Utilities, the largest municipal electric system in the state. This would increase the size to 19 members which is still a very workable number. We base our request on the following

information which shows the number of types of electric utilities serving Kansas, the number of representatives each segment has on the task force as the bill is currently written, and the approximate percentage of electric customers each segment serves. In the municipal sector, Kansas City BPU serves 65,836 customers and the other 120 municipal electric systems provide service to 181,449 customers. Midwest Energy has 34,129 customers and Sunflower's cooperative members have 45,432 customers. WestPlains (UtiliCorp) has probably less than 50,000 Kansas customers. Kansas City BPU needs to have a voice in this very important issue.

5 IOUs in State	121 Municipal Electric Cities in State	33 RECs in State
-----	-----	-----
KCP&L UtiliCorp/WP Western R	KMU	KEC Mid-West Energy Sunflower
Serves 65.7%	Serves 19.1%	Serves 15.2%

3-YEAR MORATORIUM

Any shorter time would not provide sufficient time to fully study all the very complex issues involved in electric retail wheeling. The legislature is undertaking a major policy look at a very stable, but complex industry; and should not be rushed into any decisions just because some see it as a potential economic reward. The Wisconsin Public Service Commission which has been studying this issue for quite some time is taking a serious look at a 5-year plan that may or may not call for retail wheeling. The commission currently is split on the issue and an \$80,000 Focus Group study appears to indicate there is not great public clamoring for retail wheeling in Wisconsin [**Qualitative Assessment of Public Opinion on Restructuring of the Electric Utility Industry in Wisconsin by Opinion Dynamics of Madison, Wisconsin**].

KMU feels it is apparent that a great deal of study must be given to many issues involved. The bill lists a minimum of 13 issues and there are many more, such as how to deal properly with:

- Effects on pricing
- Price variability
- Effects on stockholders and bondholders
- Customer choices
- Construction of transmission facilities
- Construction of generation facilities

Siting of transmission and generation facilities

Nuclear power plants

Renewable energy resources

System reliability

Economic dispatch

Energy efficiency

Air emissions

Obligation to service customers

Customer billing, information, and education

Effect on small business, residential customers, small towns and rural areas

Public involvement and advocacy

PILOT PROJECTS

KMU would strongly oppose language that would authorize individual utilities or entities to conduct pilot projects on retail wheeling. The major reason for creating the task force is to provide a sufficient study period along with a means of finding out difficult answers in a well-measured, carefully controlled fashion. Authorizing pilot projects other than through the task force would seem to be "putting the cart before the horse." The task force approach was recommended to consider such items that might or might not be useful to determine impacts, good or bad. KMU is not against pilot projects in general, but feels such projects should be carefully considered by the task force and be a part of the overall study strategy for the state, not for a single utility or entity.

CONCLUSION

The electric industry is already in the early stages of deregulation because of action taken in 1992 by Congress. Kansas needs to make sure any changes to the electric industry in this state are good for all -- not a few. The electric industry in Kansas has served its citizens, businesses and industries well, and prudent thought must be given prior to making radical changes. This is why KMU supports HB 2600 along with the addition of Kansas City BPU as a member of the task force.

Utilities Serving Customers in Kansas

from Electrical World Directory

	<u>Electric Customers</u>	<u>Kansas Electric Customers</u>	<u>Percent of Total Kansas Customers Served</u>
Investor Owned Utilities			
Kansas City Power and Light (KS and MO)[1]	424,262	141,419	11.8%
Western Resources	593,951	593,951	49.6%
Westplains (Kansas and Colorado)[1]	140,847	46,949	3.9%
Empire District Electric [2]	<u>NA</u>	<u>4,700</u>	<u>0.4%</u>
TOTAL	1,159,060	787,019	65.7%
Rural Electric Cooperative Systems			
Midwest Energy Inc.	34,129	34,129	2.9%
Sunflower Electric Cooperative			
Lane-Scott Electric Cooperative Inc.	2,451		
Northwest Kansas Electric Coop. Assn. Inc.	2,007		
Norton-Decatur Cooperative Electric Co. Inc.	5,909		
Pioneer Electric Cooperative Inc.	12,046		
Victory Electric Cooperative Assoc. Inc.	3,583		
Western Cooperative Electric Assn. Inc.	4,338		
Wheatland Electric Cooperative Inc.	<u>15,098</u>		
	45,432	45,432	3.8%
Others	<u>101,888</u>	<u>101,888</u>	<u>8.5%</u>
TOTAL	181,449	181,449	15.2%
Municipal Systems			
Kansas City Board of Public Utilities	65,836	65,836	5.5%
Others	<u>163,020</u>	<u>163,020</u>	<u>13.6%</u>
TOTAL	228,856	228,856	19.1%
GRAND TOTAL KANSAS CUSTOMERS		1,197,324	100.0%

[1] Kansas customer totals estimated at one third of total customers

[2] Kansas customer total estimated

2/2/96

2:52 PM

KSUTIL.XLS

summary

4-5

HOUSE BILL No. 2600

By Special Committee on Energy and Natural Resources
Re Proposal No. 30

12-20

10 AN ACT concerning retail electric service; establishing the retail wheeling
11 task force to study competition in such service; relating to authorization
12 of such competition by the state corporation commission.

13
14 *Be it enacted by the Legislature of the State of Kansas:*

15 Section 1. (a) There is hereby established the retail wheeling task
16 force. The task force shall consist of ~~15~~ members, as follows:

19

17 (1) The chairperson, vice-chairperson and ranking minority member
18 of the house committee on energy and natural resources, or a member
19 of the house of representatives designated by such chairperson, vice-
20 chairperson or ranking minority member;

21 (2) the chairperson, vice-chairperson and ranking minority member
22 of the senate committee on energy and natural resources, or a member
23 of the senate designated by such chairperson, vice-chairperson or ranking
24 minority member;

25 (3) a member of the staff of the state corporation commission des-
26 igned by the chairperson of the commission;

27 (4) a representative of the citizens' utility ratepayer board designated
28 by the chairperson of the board;

29 (5) a representative of the department of commerce designated by
30 the secretary of commerce;

31 (6) an environmental technology expert who is an authority on re-
32 newable energy, designated by the legislative coordinating council;

33 (7) one representative of industrial electric customers, designated by
34 the legislative coordinating council;

35 (8) one representative of each of the following, designated by the
36 governing body of the association: Kansas electric cooperatives, inc., and
37 Kansas municipal utilities, inc.; and

38 (9) one representative of each of the following, designated by the
39 chief administrative officer of the company: Kansas City power and light,
40 midwest energy, sunflower electric cooperative, western resources and
41 West Plains energy.

42 (b) The chairperson of the house committee on energy and natural
43 resources, or the member of the house of representatives designated by

Kansas City board of public utilities,

H-6

**TESTIMONY TO THE HOUSE ENERGY
AND NATURAL RESOURCES COMMITTEE
TUESDAY, FEBRUARY 6, 1996**

GOOD AFTERNOON, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS JON MILES. I AM THE DIRECTOR OF GOVERNMENTAL RELATIONS FOR KANSAS ELECTRIC COOPERATIVES, INC., THE STATEWIDE ASSOCIATION REPRESENTING THIRTY-THREE RURAL ELECTRIC COOPERATIVES IN KANSAS. THIS MEMBERSHIP INCLUDES TWO GENERATION AND TRANSMISSION COOPERATIVES, KANSAS ELECTRIC POWER COOPERATIVE, AND SUNFLOWER ELECTRIC POWER CORPORATION. RURAL ELECTRIC COOPERATIVES SERVE ROUGHLY 160,000 CONSUMERS ACROSS THE STATE, WHICH REPRESENTS APPROXIMATELY 20% OF THE STATE'S POPULATION AND 80% OF IT'S LAND MASS.

TODAY, WE ARE HERE TO TESTIFY IN OPPOSITION TO H.B. 2623, AND IN SUPPORT OF HOUSE BILL 2600, BASED ON OUR BELIEF THAT THE IMPACT OF RETAIL COMPETITION SHOULD BE STUDIED BEFORE IT IS IMPLEMENTED.

AS YOU KNOW, KANSAS ELECTRIC COOPERATIVES PRESENTED TESTIMONY ON TWO OCCASIONS TO THE JOINT HOUSE AND SENATE STUDY COMMITTEE ON RETAIL WHEELING. AT THAT TIME, WE NOTED OUR CONCERNS THAT ANY PROGRESS TO BRING COMPLETE DEREGULATION TO THE ELECTRIC INDUSTRY IN KANSAS SHOULD NOT BE DONE WITHOUT A CAREFUL AND COMPLETE STUDY OF THE ISSUE. ONE MAJOR CONCERN WE HAVE IS FOR THE SMALL RURAL RESIDENTIAL CONSUMER AND HIS/HER OPPORTUNITY TO PURCHASE LOW-COST POWER.

THE KEC BOARD, AND AD HOC RETAIL WHEELING AND LEGISLATIVE COMMITTEES HAVE MET ROUTINELY TO DISCUSS HOW BEST TO APPROACH AND DEAL WITH RETAIL WHEELING. IT IS CLEAR THAT THERE ARE MANY DIFFERING OPINIONS ON THE ISSUE, AND NOT EVERYONE AGREES WHETHER IT'S GOOD OR BAD, OR EVEN WHETHER THERE SHOULD BE RETAIL WHEELING AT ALL. AT THIS POINT, NO ONE KNOWS FOR SURE.

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IT IS OUR OPINION THAT H.B. 2623 DOES NOT ALLOW SUFFICIENT TIME TO STUDY THE FULL AFFECTS THAT THE LEGISLATION MAY HAVE ON THE ELECTRIC INDUSTRY IN KANSAS.

WE WOULD SUGGEST THAT THE PROPOSALS IN H.B. 2623 COULD BE STUDIED BY THE SPECIAL TASK FORCE ALONG WITH OTHER PROPOSALS OR ISSUES. H.B. 2600 ALLOWS FOR SUCH A STUDY.

IT IS FOR THAT REASON THAT THE KEC BOARD SUPPORTS H.B. 2600 TO THOROUGHLY STUDY THE ISSUE IN AN EFFORT TO DETERMINE THE VARIOUS ASPECTS INVOLVED WITH RETAIL WHEELING AND COLLECTIVELY FIND THE ANSWERS TO THE QUESTIONS THAT WE NEED BEFORE MAKING A DECISION ON AN ISSUE OF THIS MAGNITUDE.

WE FEEL THAT THE THREE-YEAR MORATORIUM WILL ALLOW THE NECESSARY TIME TO COMPLETELY REVIEW THE MATTER AND ISSUE A FULL REPORT TO THIS COMMITTEE FOR DISCUSSION AND POSSIBLE ACTION. DURING THE MORATORIUM, THE TASK FORCE WILL ALSO BE IN A POSITION TO TAKE ADVANTAGE OF FURTHER STUDY AND EFFORTS BEING CONDUCTED IN OTHER STATES.

LATER ON IN TODAY'S HEARING, YOU WILL BE HEARING FROM KEPCO'S BRUCE GRAHAM REGARDING CONSIDERATION TO BE INCLUDED ON THE TASK FORCE. WHILE IT IS TRUE THAT KEC REPRESENTS THE MAJORITY OF RURAL ELECTRIC COOPERATIVES IN KANSAS, KEPCO AND SUNFLOWER HAVE THE EXPERTISE AND THE PERSPECTIVE FROM THE POWER SUPPLIER'S POINT OF VIEW. SUNFLOWER PROVIDES POWER TO SEVEN COOPERATIVES IN THE WESTERN THIRD OF KANSAS, WHILE KEPCO SUPPLIES POWER TO TWENTY-THREE COOPERATIVES IN THE EASTERN TWO-THIRDS OF THE STATE. IT IS OUR OPINION THAT THE POWER SUPPLY ISSUES INVOLVING THE EASTERN TWO-THIRDS OF THE STATE ALSO NEED TO BE REPRESENTED ON THE TASK FORCE BECAUSE OF THEIR VARIED SUPPLY OF ENERGY RESOURCES, WHICH INCLUDE NUCLEAR AND HYDROPOWER. KEPCO IS THE ONLY CONFEREE, BESIDES THE MUNICIPAL PROVIDERS, WITH HYDROPOWER CONCERNS.

FURTHERMORE, FOUR OF KEC'S MEMBERS ARE NEITHER MEMBERS OF KEPCO NOR SUNFLOWER. THEREFORE, IN ORDER TO ENSURE THAT ALL ELECTRIC COOPERATIVES HAVE A VOICE IN THE STUDY OF THIS ISSUE WHICH IS IMPORTANT TO ALL RATEPAYERS, WE FEEL THAT KEC, SUNFLOWER AND KEPCO SHOULD BE REPRESENTED ON THE TASK FORCE.

WE THANK YOU FOR THIS OPPORTUNITY TO TESTIFY IN SUPPORT OF H.B. 2600 AND IN OPPOSITION TO H.B. 2623.



Testimony of David E. Martin
Director of Public Affairs
Kansas City Power & Light

**Before the Kansas House Committee on
Energy and Natural Resources
House Bill 2623**

February 6, 1996

Thank you Mr. Chairman and members of the Committee for this opportunity to provide Kansas City Power & Light's comments concerning our opposition to House Bill 2623.

We would recommend that HB 2623 not be passed, but rather the bill's retail wheeling concepts be added to the list of study topics contained in a similar bill, HB 2600. HB 2623 proposes to divide the state into blocks of retail service areas. Companies then would be able to bid for the right to provide retail electric service within those blocks for a specified length of time. The bill also contains provisions for recovery of stranded investments by utilities presently serving these areas, along with addressing rates and their approval by the Kansas Corporation Commission. In summary, HB 2623 would implement a certain amount of competition for retail electric service in Kansas.

This bill suggests some interesting concepts. However, KCPL's view is that these concepts would be addressed best by considering them in conjunction with the other options to be reviewed by the task force described in HB 2600..

House E + NR
2-6-96
Attachment 6



**KANSAS HOUSE
ENERGY AND NATURAL RESOURCES
COMMITTEE**
Representative Carl Holmes, Chair

Hearing on House Bill 2600
Study of Retail Wheeling
February 6, 1996

Testimony Presented By
David E. Martin
Director of Public Affairs
Kansas City Power & Light

6-2



Good Afternoon. I'm David Martin, director of Public Affairs for Kansas City Power & Light. Also with me today is Susan Cunningham of our Law Department who can assist me with some of the legal aspects surrounding the issue of retail wheeling.

We would like to thank Chairman Holmes and the committee for this opportunity to testify in support of House Bill 2600. This bill shows the time and effort from last year's interim committee work.

Before I begin, however, I would like to review for new committee members a little background about Kansas City Power & Light. We serve about 176,000 Kansas customers which is about 40 percent of our total of 430,000 customers. Our Kansas customers reside mainly in Johnson, Linn, Douglas, Franklin, Osage and Miami counties and they represent an area of significant economic growth for both the company and the state of Kansas. Basically, KCPL is the major electric provider for the Kansas City metropolitan region. We have significant electrical generation facilities within Kansas as represented by the La Cygne power station, which is the state's second largest coal-fired generating station. La Cygne station is located near La Cygne, Kansas. KCPL operates this station which is owned equally between ourselves and Western Resources. In addition, KCPL owns 47 percent of Wolf Creek nuclear generating station located near Burlington, Kansas. KCPL also has significant transmission, distribution and customer service facilities within Kansas. On a final note, KCPL is also linked with other regional electric utilities for not only reliability of service, but also for the interchange of power. This linkage extends from the Canadian border in the north, to Texas in the south and many points to the east and west up to the Rockies. KCPL, in actuality, is a major hub for the interchange of electrical power transactions here in the midwest.

In addition, two weeks ago we announced plans to merge with UtiliCorp United. This proposed merger will form a new, diversified energy company, combining gas and electric operations. We believe it's a perfect fit. KCPL's strong financial and operational management, combined with UtiliCorp's marketing skills and international reach, will give the new company excellent positioning and resources in an era of heightened competition. Customers, employees and shareholders will benefit as well as the state and local economies we each serve.

Last Friday our merger application was filed with the Kansas Corporation Commission. When completed, and with regulatory approval, some brief highlights of this combination include the following:

- A 2-percent rate reduction for all Kansas retail electric customers of both KCPL and UtiliCorp.
- Implementation of a concept that will allow us to share benefits with our customers along with a five year moratorium on general rate increases or decreases

- Improved operating efficiencies with adjacent, not overlapping service territories, as shown on the attached map.

We will also seek an increase in the depreciation rates for Wolf Creek generating station, without a corresponding increase in rates, to enhance the competitive nature of the plant and to minimize the potential for stranded investment.

This merger involves no premium or cost above stock price. The shares of the two companies will be exchanged for shares in the new company. This means the problems of resolving how to handle any paid premium will not be an issue.

As you can see, we are very excited about this new opportunity.

In light of the proposed merger, one might ask whether our previous position on HB 2600 has changed. That is not the case. KCPL continues to support HB 2600 with its two-year study by a designated task force to research not only the issue of retail wheeling, but also retail wheeling's impact upon customers, utilities and the state of Kansas.

The two-year time frame for this study is reasonable, given the complexities of the issues. Plus, it is a fact of Kansas law, that mandatory retail wheeling, if and when it arrives, will require enabling legislation before any implementation. Therefore, the legislature will need not only information, but also a thorough understanding of multiple options and their benefits, the activities and actions of the federal government along with the role and responsibilities of the states before passing any changes in Kansas law.

The only recommendation we would make to this committee on HB 2600 is in the 18 designated members of the task force. Four weeks ago, the Kansas Corporation Commission (KCC) opened a generic docket on this same issue, retail wheeling. In comparing HB 2600's list and the KCC's list of study topics, there is considerable overlap. And we would ask about the wisdom of having two major, but separate studies ongoing at the same time, researching the same issue. Since both groups are seeking the same common goal, an enhanced understanding of the options before Kansas, it might be very desirable to follow the precedent set by the telecommunications issue: combine these two efforts.

In this case, we would recommend that the membership of the task force be increased by three additional representatives from the KCC. In this manner we can all learn and share information together. From our perspective, a joint, single effort would benefit everyone and save considerable effort and dollars. The KCC could then continue to work with electric utilities in exploring ways to improve efficiencies before any implementation of retail wheeling.

Indeed, our research is beginning to indicate that performance-based regulations combined with pricing flexibility and the coming improvements in wholesale marketing (transmission line access) can capture most of the currently available efficiencies associated with retail wheeling. For example, regarding pricing flexibility, to the extent such pricing flexibility is permitted, it will not only provide additional options for our customers, but could tend to reduce the magnitude of transitional issues if and when retail wheeling is implemented.

To illustrate the third point - wholesale improvements - KCPL has been a leader in helping to establish national policy on opening our transmission facilities to wholesale wheeling. KCPL's filing in 1994 of its open access transmission tariff with the Federal Energy Regulatory Commission became the blueprint for transmission access that other utilities have followed. As a result, KCPL is prepared to compete in a more competitive wholesale market environment.

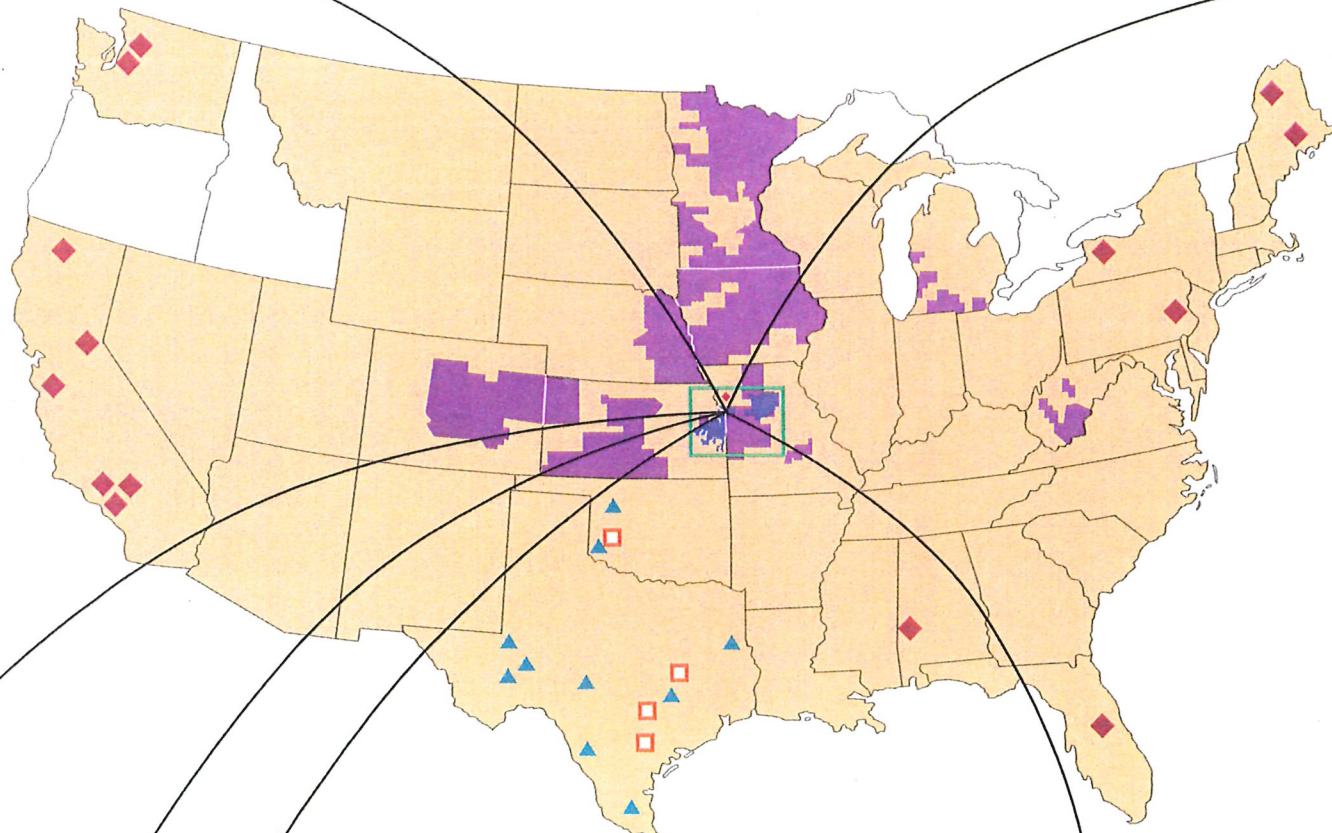
In summary, KCPL supports HB 2600, but recommends including three additional members from the KCC in the task force in order to avoid duplication or research. Thank you for letting us share our views on this bill. I would be glad to try to answer any questions the committee might have.

KCPL/UtiliCorp Operations

6-6

British Columbia 

United Kingdom 



Utility Service Areas

-  UtiliCorp
-  KCPL

 Corporate Headquarters

 Gas Marketing Area

 Power Projects

 Gas Pipelines

 Gas Processing Plants

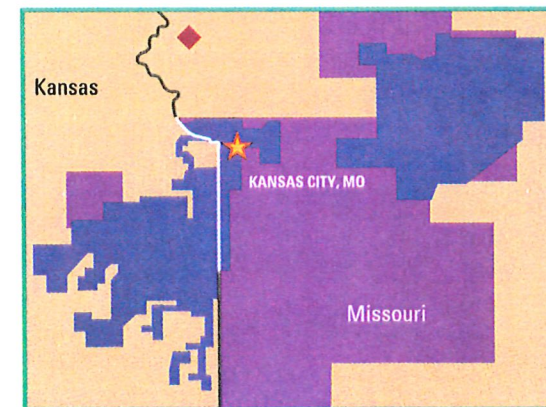
China 

Australia 

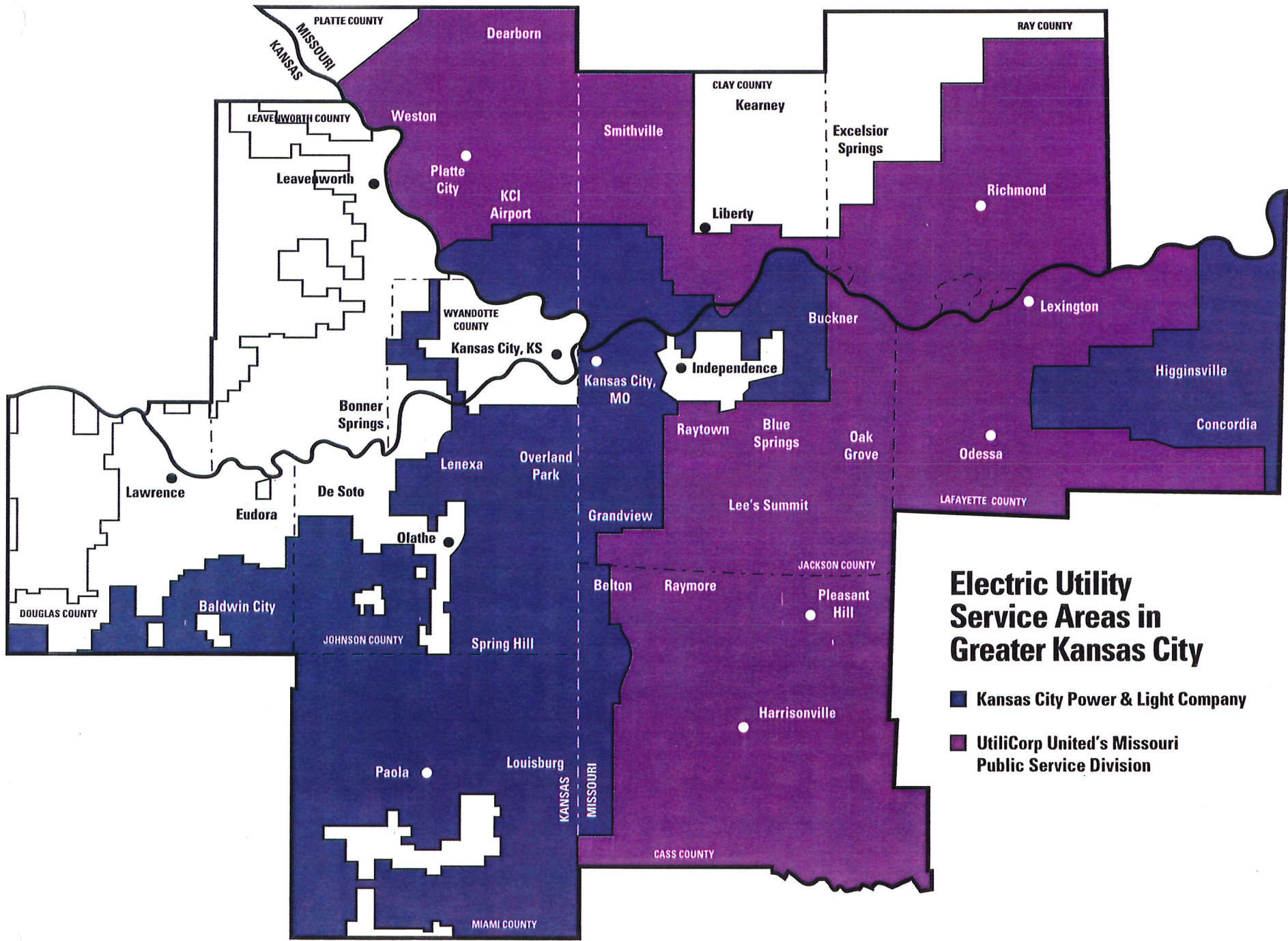
New Zealand 

Jamaica 

Kansas City and Surrounding Area

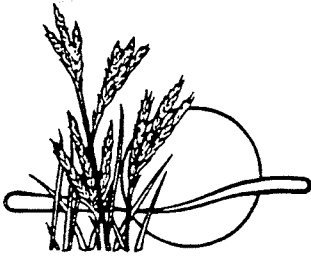


6-7



Electric Utility Service Areas in Greater Kansas City

- Kansas City Power & Light Company
- UtiliCorp United's Missouri Public Service Division



Kansas Natural Resource Council

P.O. Box 2635
Topeka, KS 66601-2635

Officers
President
Bill Ward, Lawrence

Vice President
Joan Vibert, Ottawa

Secretary
Ann Fell, Winfield

Treasurer
Art Thompson, Topeka

William J. Craven,
Legislative Coordinator
935 S. Kansas Ave.
Suite 200
Topeka, KS 66612
913-232-1555
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Testimony of Bill Craven
Kansas Natural Resource Council and
Kansas Sierra Club
H.B. 2600 and H.B. 2623
House Energy and Natural Resources Committee
February 6, 1996

Thank you for the opportunity to testify on these two bills. I am not an outright opponent of these bills, but neither can I characterize my testimony as supporting them. H.B. 2600 was conceived during the summer when the interim committee held hearings on retail wheeling. The bill creates a task force to study the question of retail wheeling and imposes a moratorium on statutory changes which would permit wheeling. During the summer, I was among those who supported the task force, and I don't recall how many other conferees joined me in opposing the moratorium.

However, my views have changed a bit since the KCC opened a docket on the question of retail wheeling and competition in the electric industry. Because the KCC is undertaking this process, which because of its sheer complexity will likely take considerable time, there is no longer the need for a moratorium. Similarly, because all the interested parties will likely intervene in the KCC docket, there is no need for a separate task force to duplicate the work which will be undertaken by the commission.

There will be a delay in establishing competition, because the KCC is not going to undertake these steps lightly or without careful consideration. I'd guess this docket might take most of the two years contained in the bill.

This is obviously a high stakes issue. We are already seeing generators positioning themselves for the era of competition. We are also seeing some merger activity--in Kansas and elsewhere--which some contend is motivated at least in part by a desire to avoid competition.

It is always dicey to get into the question of whether the legislature or the KCC should take first crack at formulating energy policy. In the past, different questions have received different answers. Generally, however, the Legislature casts itself in the role of providing oversight to the KCC, and that is how I believe the work should be divided on this issue. In other words, I believe the legislature should defer consideration of H.B. 2600 until after the KCC docket is complete and an order has been issued.

It may be appropriate, however, for the Legislature to send the KCC a list of topics or issues or sub-issues which should be considered in the KCC docket. The KCC, in the past, has been responsive to addressing concerns raised by the Legislature.

It is into this category of issues that I place the wheeling concept contained in H.B. 2623. It may very well be that it makes sense for competition within the electric industry to occur within discrete geographic areas of the state, either as a matter of policy or as a series of pilot projects. It should be pointed out, however, that these blocks should take into account existing transmission and distribution lines. Rather than passing 2623, however, I would recommend that this be one of several issues assigned to the KCC for consideration as it prepares to go forward with its docket. Additionally, I would ask that another of those issues be the role of renewable energy. After all, it was that issue that first prompted this entire discussion.

Thank you for the opportunity to testify.

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Attachment 7





**League
of Kansas
Municipalities**

LEGAL DEPARTMENT • 300 S.W. 8TH TOPEKA, KS 66603 • TELEPHONE (913) 354-9565 • FAX (913) 354-4186

LEGISLATIVE TESTIMONY

TO: House Energy and Natural Resources Committee

FROM: Don Moler, General Counsel

RE: Opposition to HB 2623

DATE: February 6, 1996

First I would like to thank the Committee for allowing the League to appear today in opposition to HB 2623. The League opposes HB 2623 for two reasons. First of all the bill clearly places municipal electric utilities under KCC jurisdiction which modifies long-standing public policy in the State of Kansas. Secondly we believe this is not an appropriate move at this time and is perhaps an overreaction to the changing technology in this area. We would suggest that HB 2623 is premature in that it takes away local autonomy in the area of electric service and would have the net affect of forcing cities under the control of the KCC for electric utilities. The League opposes this notion and would suggest it is not appropriate at this time to be considering the measures contained within the perameters of HB 2623. We would point to HB 2600 as a superior alternative which will allow for adequate study of this complex area.

Thank you very much for allowing the League to appear today on this matter.

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Attachment 8



**League
of Kansas
Municipalities**

LEGAL DEPARTMENT · 300 S.W. 8TH TOPEKA, KS 66603 · TELEPHONE (913) 354-9565 · FAX (913) 354-4186

LEGISLATIVE TESTIMONY

TO: House Energy and Natural Resources Committee

FROM: Don Moler, General Counsel

RE: Support for HB 2600

DATE: February 6, 1996

First I would like to thank the Committee for allowing the League to testify in support of HB 2600 concerning the creation of a task force to study the issue of retail wheeling. We are supportive of HB 2600 for a variety of reasons which I will highlight as follows.

First of all it allows for a considered study of the issue and does not prejudice whether or not electric retail wheeling is a good or bad idea. Secondly, it allows a sufficient period of time for the task force to study this complex issue of electric retail wheeling and to make suggestions for statutory and regulatory changes in this area.

We believe that the three year moratorium in this piece of legislation is necessary for appropriate study to be done before taking any significant steps in this area. Without having a reasonable length of time for study of the issue it is the concern of the League that inappropriate steps will be taken in a hasty fashion which will cause more problems than they will solve. Thus, the League feels compelled to support HB 2600 as a means of studying this issue and hopefully providing the best mechanism possible for dealing with electric retail wheeling in Kansas. Given the list of 13 issues which the task force must address and other unnamed issues that probably will come up in the course of their investigation and study, we can see no reasonable alternative to allowing the task force to do its job and providing a three year moratorium on electric retail wheeling in Kansas.

Thank you very much for allowing the League to appear today in support of HB 2600.

**TESTIMONY PRESENTED TO THE
COMMITTEE ON ENERGY & NATURAL RESOURCES**

February 6, 1996

COMMENTS ON HB 2600

Thank you, Mr. Chairman and members of the Committee, for providing us time to share our thoughts on House Bill 2600. My name is Steve Miller. I am the Senior Manager, External Affairs for Sunflower Electric Power Corporation. We provide wholesale power throughout the western one-third of Kansas to the 150,000 people served by the seven rural electric cooperatives that own Sunflower.

Sunflower's mission is to "provide an adequate, long-term power supply to our seven Member-Owners at the lowest possible cost that is consistent with sound business practices." Sunflower is a cooperatively-owned, nonprofit corporation. We differ from most utilities in that Sunflower is entirely owned by the rural electric cooperatives served by Sunflower. These cooperatives and Sunflower were created to serve consumers who investor-owned utilities could not profitably serve.

Sunflower provided testimony to the Special Committee on Energy and Natural Resources this summer and discussed our concerns regarding the issue of retail wheeling. We support HB 2600 because it tackles the issues, potential benefits and potential pitfalls of retail wheeling in a clear, concise and straightforward manner. We currently oppose HB2623 because we feel that all the issues concerning a competitive environment for retail electric service need to be defined and debated before retail wheeling can be properly legislated.

Our ratepayers have suffered from prior "command and control" legislative decisions. One such example is legislation by the federal government when it enacted the Powerplant and Industrial Fuels Use Act of 1978. That law effectively stranded the \$15,000,000 investment Sunflower made in its S-2 plant and forced the decision to build the Holcomb plant. Absent that legislation, our costs would almost certainly be lower and our price for electricity would be more competitive today.

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Our point is that we need to carefully consider changes to the system. Beyond the issue of stranded investments, we believe “stranded benefits” may be lost if a new system is designed around the “pure competition” principles we all learned in economics class. If price is the only consideration in a power purchase, many small businesses, ag producers and processors and residential ratepayers will be harmed.

The KCC staff noted in section 13 of its motion concerning electric industry restructuring that “restructuring of the electric industry may result in some consumers (in some parts of the state) facing higher rates than they currently face. For example, market-based rates for electricity in the short run may exceed cost of service-based rates for electricity. However, if the benefits of greater competition can be sustained over the long run, restructuring may benefit the state.” Those words—in rural Kansas—scare us to death.

The Special Committee put a lot of thought into their proposal that is embodied in HB 2600. The Task Force is very diverse and represents all elements of the electric industry. We urge you to give favorable consideration to HB 2600 so that in Kansas, we make sure we know what we’re doing and to whom. Thank you.

TESTIMONY ON HB 2600

HOUSE ENERGY AND NATURAL RESOURCE COMMITTEE

THE HONORABLE CARL HOLMES
CHAIRMAN

RESPECTFULLY SUBMITTED
BY
RANDY BURLESON
THE EMPIRE DISTRICT ELECTRIC COMPANY

FEBRUARY 6, 1996

House E+NR
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Attachment 10

Chairman Holmes and Members of the committee, thank you for the opportunity to appear before you today in support of HB 2600.

My name is Randy Burleson and I represent The Empire District Electric Company, headquartered in Joplin, Mo. Empire is an Investor Owned company serving the four corner areas of NW Arkansas, NE Oklahoma, SW Missouri and SE Kansas. Our Kansas territory consists of parts of Cherokee county and the communities of Columbus, Baxter Springs, Riverton, and Galena.

We believe studying retail wheeling with a task force is the correct approach. The task force can ensure implementation of retail wheeling occurs in an appropriate manner. The questions surrounding this issue are complex and the resolution of these questions will have tremendous impact on the State of Kansas.

Empire does have two requests regarding HB 2600. They are as follows:

1. Since Empire is one of the lowest priced providers in Kansas and the Nation, we would respectfully ask to be included on the task force. We believe our position is unique and our participation on the task force can be of value.
2. We would recommend the moratorium established by this proposed bill have some type of flexibility. There could be market forces outside of Kansas or actions by Federal agencies which would create opportunities to Kansas customers. A fixed moratorium could delay benefits to your constituents.

Empire would encourage the task force to move ahead as rapidly as possible to resolve the issues surrounding the retailing wheeling issue. We stand ready to help with the process.

Thank you for your attention. I will be glad to answer any questions.

UTILICORP UNITED

ENERGY ONESM

The House Committee on Energy and Natural Resources
Kansas House of Representatives
State of Kansas

Hearing on House Bill No. 2600
By Special Committee on Energy and Natural Resources
Re: Proposal No. 30

February 6, 1996

Testimony Presented By
John W. McKinney
Director -- Regulation
UtiliCorp United Inc.

House E+NR
2-6-96
Attachment II

Testimony of John W. McKinney
Director -- Regulation
UtiliCorp United Inc.

Before the Kansas Legislature
The House Committee on Energy and Natural Resources

February 6, 1996

Thank you Mr. Chairman and members of the Committee for the opportunity to offer UtiliCorp's comments today relating to House Bill 2600. My name is John W. McKinney. I am Director -- Regulation with UtiliCorp United Inc.

UtiliCorp has an unique combination of geographical diversity and a broad range of energy products, which enables us to have an unusual vantage point with respect to the subject of this hearing. UtiliCorp is an electric and gas utility, with total assets of more than \$3 billion in six countries. UtiliCorp also provides electric and gas service to over 1.2 million customers worldwide. UtiliCorp provides electric and gas service in eight states, including approximately 181,000 customers located in various communities throughout the state of Kansas.

Over the past decade, UtiliCorp has been reengineering and refocusing our business to become a global energy provider and service company. UtiliCorp has conducted research to find out what consumers want from their energy company.

A telephone survey conducted of 1,200 households by the Charlton Research Co. for UtiliCorp a few months ago found that:

- (a) Three-fourths of Americans pay attention to their electric energy usage and 57% of the general population supports deregulation of electric energy even though they are generally satisfied with their utility. When the customer learns more about deregulation, this percentage rises to two-thirds.
- (b) 83% of the respondents want to be given the opportunity to choose their electric utility.
- (c) Two-thirds would shop for the lowest price for electric energy, if given the opportunity.
- (d) The concepts that drive favorable attitudes toward energy deregulation are good service, lower price, choice and pro-competition.

UtiliCorp has been and will continue to be committed to bringing competitive energy alternatives directly to all customers, including the residential sector as they say they want. As I am sure you are aware, Kansas City Power and Light and UtiliCorp United have announced plans to merge into a new company. Assuming the transitional issues are fairly dealt with for all stakeholders, the new corporation that will result from this merger will also be strongly committed to work for establishing a competitive market from which all customers can benefit.

Mr. Robert K. Green, the Executive Vice President and Chief Operating Officer of UtiliCorp United Inc., testified last week before the U.S. House of Representatives' Subcommittee on Energy and Power that "Congress should continue to move forward by enlarging the competitive forces at work in the industry. We believe that Congress should state in broad terms its clear intent that energy consumers, as well as energy suppliers, should have choices in supply, service and products at market prices. The free market should substitute for regulation of the marketplace. (Of course, natural monopolies in transmission and distribution would continue to be regulated.)" Mr. Green continued in his testimony by stating "a variety of legislative and regulatory initiatives have been floated in at least 38 states and in Congress to restructure and reform the electric utility industry. We believe that the best approach to such change is that outlined by Congressman Schaefer (Colorado) -- his approach is a comprehensive, nationwide effort which promotes and encourages competition and consumer choice in energy supplies, products and services, both at the wholesale and retail level, for all classes of customers."

Mr. Green continued, "We feel such initiatives will be more effective if the federal government sets the competitive framework that eliminates any barriers to entry while the states implement retail access in a reasonable time frame. In that

way, all consumers will have the benefits of competition, including choice as to suppliers and services.”

UtiliCorp is encouraged by the efforts of the Kansas Legislature and the Kansas Corporation Commission (KCC) in moving the implementation of retail competition forward through such efforts as this legislation and the generic docket open by the KCC.

As I testified before the Kansas Legislature’s Special Legislative Committee on Energy and Natural Resources this past fall, UtiliCorp is supportive of this concept of forming a Task Force so all stakeholders can have input into the process. UtiliCorp would like to offer the thought that perhaps the two studies, this Task Force and the generic docket opened by the KCC, be combined into one study group to avoid a duplicate effort and to not delay the process of finding the best competitive structure for Kansas and the consumers of electricity located in the state of Kansas. Other states have been through the two study method and found that the separate process only delayed and did little to bring forth a uniform position for their state.

We would like to offer a couple of suggestions to the legislation, House Bill 2600, that is being discussed here today:

Section 1 (a) (3) The efforts and outcome of a Task Force of this type

will be very important to all consumers in the state of Kansas,

therefore, we would recommend that additional members of the KCC be included on the Task Force. These members could include the General Counsel, Director of Utilities and the Chief Accountant, Economist, and/or Engineer.

Section 1 (c) The issues of this Task Force will be of a very complex nature that will require much review and discussion. If this Task Force only meets the minimum number of required times (4) in each year, which means the Task Force would be together a total of only 8 days to discuss some of the most complex issues facing our industry and the consumers of the state of Kansas, very little will be achieved. We believe that the committee should be required to meet at least once every other month at a minimum so as to not delay the study any longer than necessary. This requirement will signal the consumers of this state that this legislature is serious about this issue and is determined to find the best solution for the state of Kansas.

Section 1 (f) UtiliCorp is of the opinion that while the list of issues relating to competition to be studied is very challenging, a couple of additional topics should be listed. First, the concept of alternative regulation methods will be used in a new market

and should be included and secondly, the impact the concepts of deregulation will have on the state's municipal utilities and the electric cooperatives need in-depth study. As you are aware, many Kansas consumers are served by either a municipal utility or an electric cooperative. Many questions have already surfaced relating to these consumers, and the impacts retail competition will have on them. These consumers of electricity in the state of Kansas should also be allowed to enjoy the benefits that competition will bring. They should have a choice as to who their supplier of energy will be. This Task Force, which will include representatives from both of these groups, will be available to bring forth the issues that relate to these consumers. Therefore, it is our request that since a large block of Kansas consumers fall into this group, the topic of the impact on municipal utilities and electric cooperatives should be listed as a separate study item.

Section 1 (f)(11) The issue of retail wheeling should also be expanded to include the concept of self-wheeling that is of interest to a number of large corporations located in the state of Kansas. This concept is where a company would install a generation station at one of their locations and

wheel the energy to other locations where they have operations using a public utility's transmission and distribution system. UtiliCorp is not testifying today in favor of, or in opposition to, this concept, but is only stating it is of great enough importance to be included in the study list.

As Jon Empson, Senior Vice President with UtiliCorp United Inc., testified before the Legislative Special Committee on Energy and Natural Resources of the Kansas Legislature on October 17, 1995, UtiliCorp does not believe that the three-year moratorium that is referred to in Section 2 of this Bill is required, or is constructive. The present Kansas statutes do not allow retail wheeling in any form, whether the Kansas Corporation Commission issues an order allowing retail competition or not. The Kansas Legislature has the sole power to change the state's statutes and retail competition will not happen until this takes place.

UtiliCorp would also request that the Kansas Legislature approve the concept of allowing voluntary test retail competition projects (pilot projects) to occur in the state at the same time the Task Force is reviewing the competition issue. These pilot projects would be totally voluntary by the utility serving the area of the project and could be viewed as a field test of the retail competition concepts. Many states are now starting to develop these pilot projects and the Kansas model could be formed by taking the best concepts from the other states.

I would like to offer the premise that a moratorium of any length could possibly send a signal to the rest of the country, including many large corporations, that Kansas is anti-economic development, not in favor of competition, and is building barriers to ensure retail competition does not take place. We know this is not the case, as I have already stated, but it is possible that many will question the motives of such an action when it is not required.

UtiliCorp is always willing to assist the Kansas Legislature and the Kansas Corporation Commission in any way it can and especially in moving the state toward a competitive electric marketplace where all customers can benefit. UtiliCorp supports House Bill 2600 and we look forward to working with the Legislature and/or the Corporation Commission as it develops the necessary laws, regulations and policies needed to restructure the electric utility industry in the state of Kansas for the consumers of Kansas.

TESTIMONY BEFORE THE
HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE

by Jim Ludwig

WESTERN RESOURCES, INC.

February 6, 1996

Mr. Chairman and Members of the Committee:

I am Jim Ludwig, executive director, regulatory and rates for Western Resources. Western Resources, through its operating companies KPL, KGE, and Gas Service, provides natural gas to approximately 650,000 customers in Kansas and northeastern Oklahoma, and electric service to 600,000 customers in eastern and central Kansas. We are headquartered in Topeka. I am here today as a proponent of HB 2600.

This bill establishes a task force of appropriate interests to study issues related to providing retail electric service on a competitive basis and then to make recommendations to the legislature by the opening of the 1998 session. It also prohibits the corporation commission from authorizing competition in providing retail electric service; the commission could, however, study the issue in generic dockets and is not prohibited from issuing orders that mitigate potential problems related to retail wheeling. The commission, in fact, opened a generic docket January 17 on restructuring in the electric industry.

It is worth it to hold retail wheeling at bay until the task force resolves issues enumerated in the bill (page 2, lines 32-43 and page 3, lines 1-4). Among the issues, Western Resources believes it is most important to address:

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- How to prevent or abate potential economic harm to residential, small commercial and agricultural customers who may not have as many options among competing electric suppliers as large consumers.
- How to deal with costs utilities have incurred under the current regulatory scheme to serve customers who may leave the utility's system under a new open-access, market-based system.
- How to assure reliable electric service as more suppliers than ever before wheel electricity across grids and how to equitably assess the costs of maintaining grids.
- How the state of Kansas can foster its own economy in establishing a competitive market place to set the price of electricity.
- How KSA 66-1,170 will have to be amended to address currently exclusive electric service territories. If exclusive service territories are dissolved, who bears responsibility to serve customers who cannot be served profitably, or even at cost? Even when provisions of HB 2600 would expire July 1, 1999, retail wheeling would still be statutorily prohibited unless the provision on exclusive territories is changed or repealed.
- How local franchise tax and state property tax bases might change under retail wheeling.

Western Resources sees merit in a more competitive market for electricity and is ready to participate in the HB 2600 task force. We ask the committee to support the bill.



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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**Testimony of Donald P. Schnacke, Executive Vice President
Kansas Independent Oil & Gas Association
before the
House Energy & Natural Resources Committee
February 6, 1996**

RE: HB 2600 - Electric Retail Wheeling Task Force

I am Don Schnacke, Executive Vice President of the Kansas Independent Oil & Gas Association. We are appearing in favor of the passage of HB 2600, but we wish to offer suggested amendments that we think would better serve our industry.

The interim committee, under Proposal No. 30, added one additional member to the task force, the inclusion of Midwest Energy under (9), page 1, line 40. This raised the total members from 17 to 18. We did not oppose that move, but we did ask that Section 1, (7) at line 33 on page 1 be expanded to one additional category of industrial electric customer. We asked that there be two categories of electric customers, large customers and small customers. This was rejected by the interim committee.

An important justification for providing for large and small industrial electric customers is that the task force must make a finding in (f)(3) page 2, line 34, as to the economic impact on each class of electric utility customer. During the interim study there were clearly two classes of electric utility customers, large and small. The customers that we represent throughout Kansas are small customers as contrasted to the large customers like Boeing, Goodyear, General Motors, etc. We think both classes, large and small alike, should be represented on the task force.

It was suggested that if the task force was getting too large, that the number of legislators could be reduced from six to four. However, working with the 21-member Governor's Tax Equity Task Forces this past summer and fall did not seem to us too cumbersome or that there were too many members.

Additionally, we believe the time period reserved for study and reporting to the legislature is much too long. HB 2600 suggests a report of the task force's findings by January 11, 1998. That gives the task force 18 months to report. We believe the work of the task force could be done in the months remaining in 1996 with a report by January, 1997. We monitored the Governors' Tax Equity Task Force and it completed its work during 1995 and made broad recommendations to the legislature in time for consideration in the 1996 session. I believe the task force envisioned under HB 2600 can complete its recommendations in the remaining months of 1996.

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**Testimony of Donald P. Schnacke, Executive Vice President
Kansas Independent Oil & Gas Association
RE: HB 2600 - Electric Retail Wheeling Task Force
February 6, 1996**

We also object to Section (2) on page 3, restricting the KCC to act until after July 1, 1999. Under that restriction, it would appear the goal of establishing electric retail wheeling in Kansas would not be until July 1, 2000, or 4 1/2 years from now! We intend to leave your Committee with the impression that our industry and our members would like to have retail wheeling of electricity as soon as possible, not 4 1/2 years from now.

The use of electricity is critical and a high expense to producers of crude oil throughout Kansas. The economic status of the industry in Kansas is weak and the availability of lower cost electricity to oil operators who use it on a 24-hour, 7-day a week basis, would be a great improvement for oil operators throughout Kansas who are working very hard to preserve fragile marginal wells from premature abandonment and plugging..

Thank you for your consideration of our recommendations.

Donald P. Schnacke



Kansas Electric Power Cooperative, Inc.

**Comments on H.B. 2600
Presented by the Kansas Electric Power Cooperative, Inc.
Before the House Energy and Natural Resources Committee
Tuesday, February 6, 1996**

Mr. Chairman and members of the Committee. Thank you for the opportunity to comment in support of H.B. 2600. My name is Bruce Graham, Corporate Relations Coordinator for the Kansas Electric Power Cooperative (KEPCo).

KEPCo was privileged to testify on retail wheeling during the 1995 interim study session. As part of those remarks, we expressed our concern for the residents of rural Kansas knowing that electric cooperatives, with an average of less than three consumers per mile of line, will likely bear the brunt rather than the benefit of retail wheeling.

Nevertheless, we are dedicated to providing our members with the best value for their energy dollar and if retail wheeling is truly inevitable, we must be sure the proposal is structured to help all consumers, not just a fortunate few. Therefore, KEPCo supports the creation of the task force, the stated timeline for a report, and the moratorium which is contained in H.B. 2600.

In addition, KEPCo believes that all utilities with significant service in the state of Kansas should actively participate in this discussion. No two utilities are alike--each one will represent unique customers and will bring a variety of circumstances, opinions, and expertise to the table.

Let me explain the structure of the electric cooperative industry in Kansas and its representation in this bill. Sitting at the table is the Kansas Electric Cooperatives (KEC) a statewide trade association with a membership of 33 not-for-profit electric cooperatives in Kansas--30 retail distribution cooperatives and the state's two Generation and Transmission (G&T) utilities. The two G&Ts are Sunflower Electric Power Corporation in Hays and the Kansas Electric Power Cooperative (KEPCo) in Topeka. As the name implies, the role of the two G&Ts is to generate and transmit a reliable wholesale power supply to the distribution cooperatives. Sunflower serves wholesale electricity to seven distribution cooperatives in western Kansas and have

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been appropriately designated a chair at the table. KEPCo serves 23 electric cooperatives which serve roughly two-thirds of the rural land area of Kansas and is not listed as a task force participant. Another electric cooperative, Midwest Energy in Hays, was added to the task force after the bill's original draft, primarily because it is not a member of the statewide association.

KEPCo believes it offers some characteristics which are unique to the task force. First, we own six percent of the Wolf Creek Generating Station. That stake is the only generation which KEPCo owns yet it represents a majority of our assets and our costs. For the other owners of Wolf Creek, the plant is a much smaller percentage of their generation portfolio. How costs are recovered under retail wheeling, especially for Wolf Creek, is critical to KEPCo and its customers.

Second, KEPCo is also one of a few entities in Kansas with a hydropower allocation from federal facilities in Missouri, Colorado and Arkansas--a power supply not significantly represented on this task force. This also gives us extensive experience and interest in wheeling.

KEPCo was a member the Chapter 66 Task Force which worked through 1994, the Environmental Law Review Task Force convened in 1995, and would be an enthusiastic part of this team which will likely have a major say in the future of every utility and every utility customer in Kansas.

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PUBLIC POLICY STATEMENT

HOUSE COMMITTEE OF ENERGY & NATURAL RESOURCES

Re: HB2600 - Establishing the Retail Wheeling Task Force

February 6, 1996
Topeka, Kansas

Presented by:
Bill R. Fuller, Associate Director
Public Affairs Division
Kansas Farm Bureau

Chairman Holmes and members of the Committee:

Many farm and ranch members of Farm Bureau in Kansas have a number of concerns and a wide range of questions about retail wheeling. Our members recognize the issue is very complicated and extremely important to all Kansans. Agriculture is dependent upon, in fact many farming operations consume significant quantities of electricity.

My name is Bill Fuller. I am the Associate Director of the Public Affairs Division for Kansas Farm Bureau. I am here to express support for HB 2600. The 411 Voting Delegates representing the 105 county Farm Bureaus in Kansas adopted new policy at the 77th Annual Meeting of KFB that says, "Energy regulation and retail wheeling should be advantageous to all segments of the economy including agriculture and rural communities." Farm Bureau further

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recommends, "Rules and regulations promulgated as a result of legislation on regulation and retail wheeling should assure Kansas is not at a competitive disadvantage with any other state." The entire text of Kansas Farm Bureau's resolution on "Energy Regulation" is attached to this statement.

We believe creation of the Retail Wheeling Task Force is essential in developing appropriate long-range state policy that serves Kansas citizens and industries well and promotes competition among those providing electric service. We respectfully encourage passage of HB 2600.

Thank You!

Energy Regulation

TU-4

Legislation regarding energy regulation should result in fair competition. Competition should result in lower prices, better service through utility innovations, and more choices. Energy regulation and retail wheeling should be advantageous to all segments of the economy including agricultural and rural consumers.

We support the Kansas Corporation Commission's role in monitoring service quality and equitable rate treatment for all segments of the energy industry served by regulated monopolies. Rate structures should facilitate an open market and allow a reasonable return on generation, transmission, and distribution investments. Rules and regulations promulgated as a result of legislation on regulation and retail wheeling should assure Kansas is not at a competitive disadvantage with any other state.

**Comments by Gene Argo, President of Midwest Energy, Before the
Energy and Natural Resources Committee -
Kansas House of Representatives
February 6, 1996**

Thank you for allowing comments on behalf of Midwest Energy regarding proposed legislation to study and review retail electric deregulation. My remarks will be brief but should describe our view of the direction for the retail electric business.

Competition will no doubt prevail as we move toward deregulation. Three things will be accomplished; price disparities will decrease; consumers will have choices; and utilities will become more creative. These things are good.

Let me point out that we don't have all the answers, however, we do recognize that electric consumers want competition. This is the driving force for deregulation. Current price disparities, even within the State, put customer/producers at a competitive disadvantage. We should not spend time rationalizing why and how, but rather recognize that the situation exists.

We see the challenge before us as an opportunity for legislators, utilities, regulators and consumers to move ahead and build a competitive framework for all electric customers, not just a selected few. Midwest Energy believes this is possible.

This transition may be unpleasant for some who have chosen not to recognize or aggressively move to competitive pricing. Strategies ranging from accounting techniques such as accelerated depreciation to total financial reorganization need to be considered. Inside of this range we already see mergers and acquisitions, increased cost control, organizational changes, and diversification.

I'm not suggesting that we totally disregard the fact that investments were made under the old or a different set of rules, but understand that the rules are changing and adjustments need to be addressed.

Many utilities are already positioning themselves for an uncertain deregulated future - some aren't. Bullets will have to be bitten as we transcend from the regulated price world to the open market.

The proposed legislation provides a logical approach to address the needs of the consumer, large and small. By including the various segments of our industry, we can draw upon expertise and interest to arrive at a level playing field as we move to an open market.

Midwest Energy can contribute to the process by bringing to the committee, the unique perspective of a privately financed, customer owned, diversified energy services company. Midwest Energy is optimistic about our future in a deregulated environment and fortunate to be part of the decision making process as outlined in the proposed legislation. Thank you very much. I will be glad to answer any questions.

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Kansas Corporation Commission

*Bill Graves, Governor Susan M. Seltsam, Chair F.S. Jack Alexander, Commissioner Timothy E. McKee, Commissioner
Judith McConnell, Executive Director David J. Heinemann, General Counsel*

HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE February 6, 1996

I am David J. Heinemann, General Counsel for the Kansas Corporation Commission, appearing on the Commission's behalf to offer testimony today on House Bill 2600.

First, the Commission would like to state that it is well aware that nationally there is a strong movement toward opening up competition in the electric wholesale and retail markets. As you are aware, this Commission is taking an active role with the states of Missouri and Arkansas in the FERC Mega NOPR to help assure a fair playing field with the opening up of transmission access in the wholesale market.

In specific response to the proposal before the committee today it appears that Section 2 was drafted with the idea that the Commission was in the process of authorizing competition at the electric retail service level. Let me assure you that this is not the case. A close reading of "The Retail Electric Suppliers Act": K.S.A. 66-1,170 through 1,176, inclusive, clearly indicates that retail electric suppliers are granted "exclusive" electric service territories to the specific exclusion of all other retail electric suppliers; consequently, any proposed action by the Commission in this area to authorize competition in the furnishing of retail electric service would require the collaborative efforts of both the legislature and the Commission because of the statutory amendments required to implement any change from present law.

Section 2 also indicates that the Commission may open one or more generic dockets to study the issue of competition in the furnishing of retail electric service. I would like to report that on January 17th the Commission entered an order opening Docket No. 193,930-U, "a General Investigation into the Restructuring of the Electric Industry in the State of Kansas." This order was in response to the fact that retail wheeling issues, such as the avoidance of stranded investment, are now appearing before the Commission as the electric industry quickly postures to meet the competition it sees on the horizon.

Again, as we indicated this past fall to the Special Committee on Energy and Natural Resources, the Commission welcomes the opportunity to work with the legislature to develop recommendations regarding the promotion of competition in the furnishing of retail electric service.

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3. Several state legislatures are considering ways to restructure the electric industry and whether any change in the industry will likely benefit the general public.

4. There are indications that Congress may enact related legislation affecting the structure of the electric industry. For example, Congress may consider the legislation that would reform and amend the existing Public Utility Holding Company Act (PUCHA) Pub. L. 104-37 and Public Utility Regulatory Policies Act of 1978 (PURPA) Pub. L. 95-617, and legislation which would set jurisdictional boundaries for the Federal Energy Regulatory Commission [FERC].

5. Similarly, several state regulatory agencies are currently exploring, through formal proceedings, the possibility of restructuring the electric industry at the retail sales level.

6. FERC has initiated a series of notices and proposed rules attempting to foster and guide a restructuring of the industry at the wholesale level. It appears, likely, that FERC will move to restructure the wholesale market in some way. Because FERC has jurisdiction over the transmission function, it has focused its attention on restructuring that function. However, Commission Staff [Staff] believes that if any restructuring is to achieve the desired results, it must be comprehensive. Each state will likely be required to respond to FERC's initiatives and pursue its own initiatives in matters of which the state has jurisdiction.

7. The industry itself is changing in response to public and private initiatives. Since 1989, over 50 percent of the generating capacity added in the

electric industry has been by non-regulated generators. The increasing ability of independent power producers to finance, complete and market their generating projects, as opposed to the traditional regulatory ratebase treatment of such projects, shows that a competitive wholesale market for electricity is evolving. Furthermore, the New York Mercantile Exchange expects to offer (sometime in 1996) a market in which to trade an electricity futures contract. Since futures and spot (or cash) markets tend to operate in tandem, the development of such a futures market will serve to promote the generator development of spot electricity markets.

8. Several Kansas utilities have expressed concern about their ability to retain business with large industrial customers. In anticipation of electric industry restructuring, some utilities have requested Commission permission to offer significant discounts on tariffs and special contracts. To date, the Commission has denied such requests. (For an example, *see* KCC Docket No. 193,303-U) These developments show that utilities in Kansas are increasingly concerned about actual and expected competitive pressures.

9. In view of actual changes in the electricity market, developments at the FERC and other state regulatory agencies, and recent filings by Kansas jurisdictional utilities, it appears that issues related to restructuring the electric industry in the state of Kansas are ripe for Commission investigation and consideration. This docket will serve as a means for the Commission to establish its proper and necessary role in the process of electric industry restructuring and as a means to explore issues and resolve matters that may come before the Commission.

10. That the Commission shall soon issue a procedural order setting out specific issues to be addressed by interested parties and a procedural schedule.

11. That the Commission expects that considerable time and effort will be spent by its Staff on this investigation and that it may be necessary for the Commission to employ special Staff to assist in the conduct of this investigation. The Commission consequently contemplates assessing the various electric utilities subject to the jurisdiction of this Commission to defray the expenses of investigation in proportion to the gross Kansas revenues of such utilities, as evidenced by their annual reports to the Commission. As to the rural electric cooperatives, the costs of this investigation shall be assessed only to the generation and transmission cooperative and no assessment shall be made to the member distribution cooperatives. In this way, the cooperatives' retail customers do not pay twice, once for the distribution cooperative and again for the generation and transmission cooperatives assessment.

12. That a hearing for purposes of determining the necessity of such general investigation and to assess the cost thereof pursuant to the provisions of K.S.A. 66-1502 will be held if requested, at which time said utilities may be heard as to the necessity of such general investigation and may show cause, if any there be, why such investigation should not be made or why the costs thereof should not be assessed against said utilities.

13. That this Order will serve as notice to all electric utilities certificated and subject to the jurisdiction of this Commission

IT IS, THEREFORE, BY THE COMMISSION, CONSIDERED, ADJUDGED,
AND ORDERED:

That the State Corporation Commission of the State of Kansas, by this Order, hereby undertakes, upon the motion of its Staff, a generic investigation for the purpose of analyzing matters related to restructuring the electric industry and their implication for the state of Kansas.

IT IS FURTHER ORDERED THAT:

This Order shall serve as notice to all electric public utilities certificated by and subject to the jurisdiction of this Commission as evidenced by the addendum attached hereto, and that a copy of this Order shall be served on all such utilities.

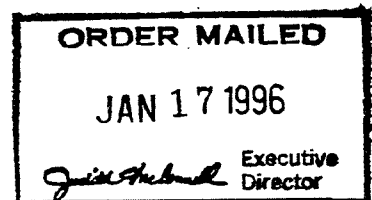
IT IS FURTHER ORDERED THAT:

The Commission retains jurisdiction of the parties and of the subject matter for the purpose of entering such further order or orders as it may from time to time deem necessary and expedient.

BY THE COMMISSION IT IS SO ORDERED:

Seltsam, Chair; Alexander, Com.; McKee, Com.

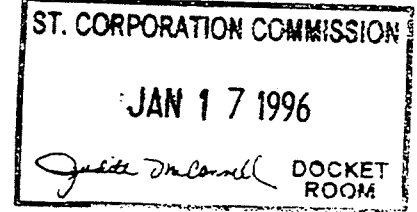
Dated: JAN 17 1996



Judith McConnell
Executive Director

LMC:Smd

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS



Before Commissioners: Susan M. Seltsam, Chair
F.S. Jack Alexander
Timothy E. McKee

In the Matter of a General Investigation)
into the Restructuring of the Electric)
Industry in the State of Kansas.)

Docket No. 193,930-U

96-61ME-371-61E

**MOTION OF THE STAFF OF THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS TO INITIATE A GENERAL INVESTIGATION
AND OPEN A GENERIC DOCKET FOR PURPOSES OF ANALYZING MATTERS
RELATED TO RESTRUCTURING THE ELECTRIC INDUSTRY AND THEIR
IMPLICATIONS FOR THE STATE OF KANSAS**

COMES NOW, the Staff of the Kansas Corporation Commission and moves the Commission to open a docket for purposes of investigating questions and policy options related to restructuring the electric industry, and how possible answers and policy outcomes might influence the public interest. In support of its motion, the Commission Staff (Staff) states:

I. This is an Appropriate Time to Open a Generic Docket.

1. Several state legislatures are considering ways to restructure the electric industry and whether any change in the industry will likely benefit the general public.

2. There are indications that Congress may enact related legislation affecting the structure of the electric industry. For example, the Congress may consider legislation that would reform and amend the existing Public Utility Holding Company Act (PUCHA) Pub. L. 104-37 and Public Utility Regulatory Policies

Act of 1978 (PURPA) Pub. L. 95-617 and legislation which would set jurisdictional boundaries for the Federal Energy Regulatory Commission (FERC).

3. Similarly, several state regulatory agencies are currently exploring, through formal proceedings, the possibility of restructuring the electric industry at the retail sales level.

4. The FERC has initiated a series of notices and proposed rules attempting to foster and guide a restructuring of the industry at the wholesale level. It appears likely that FERC will move to restructure the wholesale market in some way. Because the FERC has jurisdiction over the transmission function, it has focused its attention on restructuring that function. However, Staff believes that if any restructuring is to achieve the desired results, it must be comprehensive. Each state will likely be required to respond to FERC's initiatives and pursue its own initiatives in matters over which the state has jurisdiction.

5. The industry itself is changing in response to public and private initiatives. Since 1989, over 50 percent of the generating capacity added in the electric industry has been by non-regulated generators. The increasing ability of independent power producers to finance, complete and market their generating projects, as opposed to the traditional regulatory ratebase treatment of such projects, shows that a competitive wholesale market for electricity is evolving. Furthermore, the New York Mercantile Exchange expects to offer (sometime in 1996) a market in which to trade an electricity futures contract. Since futures and spot (or cash)

markets tend to operate in tandem, the development of such a futures market will serve to promote the greater development of spot markets for electricity.

6. From a Kansas specific perspective, the issues of competition and stranded investment have already been raised. On August 17, 1995, Kansas Gas and Electric Company (KG&E) filed an application in Docket No. 193,306-U, seeking to make changes in KG&E's depreciation of the Wolf Creek Generating Station, the depreciable lives of its non-nuclear electric generation, transmission and distribution assets and certain charges for electric service. The proposed changes may, directly or indirectly, affect or influence KG&E's cost of service and electric rates.

7. The testimony presented by KG&E under Docket No. 193,306-U offers the essential elements of Western Resources, Inc.'s, (WRI) plan for dealing with the possibility that its Wolf Creek Generating Station assets will be non-competitive in a restructured electric industry. WRI's Wolf Creek plan is a financial plan for dealing with the prospect that operating Wolf Creek in a more competitive electric industry may not be as profitable as operating WRI's other generating plants. Western Resource's Executive Vice President and Chief Operating Officer, James Haines, states: "KG&E's plan presents an opportunity to anticipate a stranded cost problem before it arises and becomes a crisis and to decrease rates at the same time." (prefiled testimony, p. 6, ln. 20) In its answer to Staff's motion filed November 14, 1995, WRI states that it "seeks a creative and pro-active step to forestall potentially great problems with stranded costs in the future by mitigating and reducing potentially

strandable costs now, diminish rate disparity between KPL and KG&E, and prepare for a more competitive electric energy market."

8. Several utilities have expressed concern about their ability to retain business with large industrial customers. In anticipation of electric industry restructuring some utilities have requested Commission permission to offer significant discounts on tariffs and special contracts. To date the Commission has denied such requests. (For an example, *see* KCC Docket No. 193,303-U.) These developments show that utilities in Kansas are increasingly concerned about actual and expected competitive pressures.

9. In view of actual changes in the electricity market, developments at the FERC and other state regulatory agencies, and recent filings by Kansas jurisdictional utilities, it appears that issues related to restructuring the electric industry in the state of Kansas are ripe for Commission investigation and consideration. This docket will serve as a means for the Commission to establish its proper and necessary role in the process of electric industry restructuring and as a means to explore issues and resolve matters that may come before the Commission.

II. Why Open a Generic Docket?

10. Staff believes that establishing a generic docket is the best means to address issues related to electric industry restructuring on a state-wide basis. Staff believes that it is important that all interested parties in the state who will be affected by the Commission's decision have an equal opportunity to participate in the discussion.

11. The Commission has in the past found it appropriate to open a generic docket to investigate and resolve issues of general applicability to an industry in the state of Kansas. For example, the Commission opened a generic docket in order to investigate issues pertaining to the restructuring and introduction of competition into the telecommunications industry in the state of Kansas, Docket No. 190,492-U.

12. All Commission policy pertaining to competition issues must be comprehensive and balanced in nature. Without such an approach, the Commission will be at risk of bestowing an unfair advantage or disadvantage on a particular company. Designing an efficient and consistent restructuring policy is critical. Staff believes that a comprehensive, balanced and uniform restructuring policy can best be established in a generic proceeding.

13. The Commission and, indeed, the Kansas Legislature may wish to first explore whether any restructuring will be in the public interest. This can only be done by taking a state-wide perspective. Restructuring of the electric industry may result in some consumers (in some parts of the state) facing higher rates than they currently face. For example, market-based rates for electricity in the short run may exceed cost of service-based rates for electricity. However, if the benefits of greater competition can be sustained over the long run, restructuring may benefit the state. Investigation of the public interest over the long term requires a generic docket.

14. Because any restructuring may involve deregulation of generation assets, it is imperative that any action be uniform and non-discriminatory among all utilities. Satisfying this requirement suggests a generic proceeding. Furthermore,

because of the possibility that generation assets will eventually be deregulated, the Commission may want to investigate what policies it should implement during this period of transition. Such transition period policies are necessary and must be uniformly applied so that no party can gain a competitive advantage before the competition formally begins (that is, before any deregulation is complete). For example, the expected or actual restructuring of the electric industry will likely influence the incentives for utilities to merge, alter Commission approved depreciation schedules, and offer rate discounts. As part of a generic restructuring docket, the Commission may wish to explore these specific issues and, in general, the proper transition policies. This will enable the Commission to formulate proactive transition policies that recognize the expected realities of a restructured industry. Since all electric utilities in the state may be affected by changing of merger, depreciation or rate discounting incentives during this transition period, it is critical that these transition period policies be absolutely uniform so that no one utility can, so to speak, jump the gun. For these reasons, transition period policy issues are best explored through a generic proceeding.

15. For the foreseeable future there will continue to be considerable debate and discussion regarding how and when to restructure the electric industry. The debate has been national in scope and has occurred, in one form or another, in every state capital. The debate about restructuring has not and should not be limited. The scope of this debate also suggests the need for a generic proceeding.

16. The joint ownership of generating plants invites a broader approach than a case by case or company by company approach. As the Commission knows, KG&E owns 47 percent of the Wolf Creek Generating facility, Kansas City Power and Light (KCPL) owns 47 percent (about half of which is Kansas jurisdictional), and Kansas Electric Power Cooperatives, Inc., (KEPCo) owns the remaining 6 percent. Wolf Creek is not the only jointly owned generation facility in the state.

17. WRI may prefer that the Commission focus on its potential stranded cost problem by looking only at the Wolf Creek facility, however, such a narrow view may not serve the public interest. The Commission may wish to take a broad view, perhaps a company-wide view. In this regard, a generic docket will facilitate a more comprehensive approach to stranded investment issues.

18. Many of the issues surrounding the recovery of stranded costs will call for a value judgement. Once the level of stranded cost has been established the Commission will need to determine who pays. More specifically, the Commission will need to determine how the stranded cost is to be allocated between shareholders and ratepayers and how the ratepayer's share should be allocated among customer classes. To determine any allocation issue the Commission must apply a fairness or equity standard. The Commission must decide how stranded costs should be allocated. The achievement of uniformity in this regard is an absolute necessity. Staff very strongly believes that this fairness issue is best addressed in a generic proceeding.

19. Staff believes it would be premature for this Commission to consider any potential stranded cost problem at this time. Before stranded costs can be generated there must first be significant change in the electric industry. Stranded costs result from actual change, an actual restructuring. It is impossible to know the magnitude of the potential stranded cost problem in the state of Kansas before it is known how the restructuring will occur. To focus on the stranded cost problem before addressing the fundamental issues of restructuring is tantamount to putting the cart before the horse. A generic proceeding would place these issues in their proper order.

20. For the foregoing reasons, Staff believes it is best not to address electric industry restructuring on a case by case basis. The questions are complex in nature and there does not exist a general consensus on how best to advance restructuring. While the gas industry has recently experienced a restructuring, it is unlikely that experience will serve as a template for the electric industry. Operating and meeting the requirements placed on an electric power grid tends to be more complicated than operating and meeting the requirements placed on the natural gas grid.

III. Restructuring Issues the Commission May Wish to Investigate.

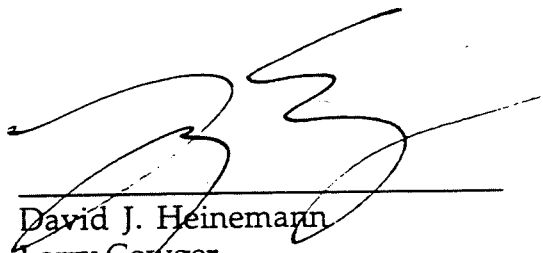
21. Staff offers the following short list of fundamental restructuring issues the Commission may choose to investigate:

- A. Given the electric industry's existing operational, ownership, legal and regulatory structure(s), where is change feasible?
- B. Among those changes that are feasible, which may be in the public interest?

- C. Which combination of changes in the industry will most likely yield the greatest gain in public welfare? The Commission will need to consider time horizons of different length. For the state of Kansas, it is possible that the short term implications of restructuring differ considerably from the long term implications.
- D. Having identified the optimal combination of changes, what specific policies might the Commission advance and implement in order to achieve the intended result?
- E. Contemplating possible implementation problems and their solutions may be required.
- F. Which functions or operations performed within the electric industry should be subject to agency regulation and which should be subject to regulation by the marketplace?
- G. If the generation function should be subject to market discipline, what is the best way to structure that market? Equivalently, how can that market be instituted to achieve the greatest degree of competition thereby minimizing the market influence of any one participant? The Commission may wish to explore whether divestiture of generation assets will be required to establish a competitive generation market.
- H. If the transmission and distribution functions should continue being subject to agency oversight, are there alternative forms of regulation (or equivalently, alternative pricing mechanisms), such as performance-based regulation, that may offer opportunities to gain efficiency? [Staff would note that these questions could be investigated more completely under their own respective generic dockets. However, Staff believes certain questions concerning the transmission and distribution functions will need to be addressed in any restructuring docket.]

- I. Depending on the generation market established, the distinction between wholesale and retail sales transactions may become either more or less distinct. The Commission will need to explore questions concerning boundaries between wholesale and retail sales transactions. In large part, these are questions of jurisdiction.
- J. Any restructuring in the electric industry will not occur without costs and benefits being incurred. The Commission will need to evaluate and estimate the costs and benefits of the restructuring.
- K. Having identified a means to estimate the restructuring (stranded) costs and benefits, the Commission will need to specify how those costs and benefits are to be allocated among participants in the electric industry.
- L. Should the Commission articulate the objectives of a restructuring policy and a time frame for achieving them, the Commission may also wish to explore the need for transition period policies that would be implemented prior to that point in time when fundamental structural change is allowed.

WHEREFORE, the Staff of the Kansas Corporation Commission requests an Order from the Commission initiating a general investigation and opening a generic docket for purposes of investigating questions and policy options related to restructuring the electric industry.

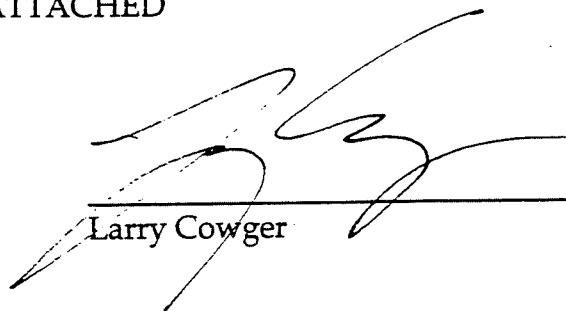


David J. Heinemann
Larry Cowger
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(913) 271-3157

CERTIFICATE OF SERVICE

I hereby certify that a copy of the "Motion of the Staff of the State Corporation Commission of the State of Kansas to Initiate a General Investigation and Open a General Docket for Purposes of Analyzing Matters Related to Restructuring the Electric Industry and Their Implications for the State of Kansas" was mailed First Class Mail, postage prepaid, and properly addressed to the following persons on this 17th day of January, 1996:

SEE ATTACHED



Larry Cowger

Smd

MUNICIPAL SYSTEMS
dated February 22, 1991

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Anthony, KS 67003

City Clerk
CITY OF ASHLAND
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City Clerk
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17-20

ROBERT O. BEHRENDT
Mayor

CITY OF MINNEAPOLIS

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Fax (913-392-2177)

LOWELL F. PARRISH
Clerk/Administrator

January 31, 1996

Honorable Joann Freeborn
State Capitol
Room 180-W
Topeka, KS 66612

Dear Rep. Freeborn:

I have just received notice of HB2623, concerning Determination of Rates and Charges proposed by Rep. Sloan. It is my understanding that this bill is in the Energy and Natural Resources Committee which you are Vice-Chairperson.

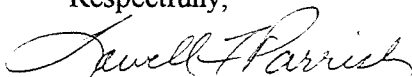
It is difficult for me to understand why the legislators must waste their time with such things as this. We have seven members of our City Council who are elected by the people of the City to oversee utility rates. This is a very political decision to change rates and always a very difficult one to make. Our Council members rub shoulders every day with the rate payers, which would seem to me, to be plenty of control. We have only increased our electric rates once in the last fifteen years.

I just do not believe we must give bureaucrats, at any level, more authority over what we do in our local communities. If this bill passes, we once again give outsiders the right to pull our strings. It will cost us more money, time, and aggravation to comply with more bureaucratic red tape. **We have been managing this electric utility for 75 years and now we have those that apparently feel we cannot do it properly.** It appears to me that either the H,ENR committee does not have enough to do or, the KCC does not have enough to do to justify their existence. I know one fact for certain, I have enough to do without adding this type of thing to my work load.

We do not have a staff to handle more of this kind of work load. Before long, we will have to have an engineer and an attorney on staff to handle all the requirements of the past five years. We are in the **process now of hiring a Compliance Officer to help us get into compliance with the State and Federal regulations we already have to contend with.** How do we fund increases in work loads which require more staff, higher rates or property taxes? That would not seem to benefit our residents.

I apologize for the negative tone of this communication. I know that you and your colleagues do many great things to help us and so seldom receive recognition for that. And, please do not think that I am being disrespectful. Far be that from my mind. I do know how complex things are today. But, I would appreciate your concern for us small town folks who are struggling to make things work to provide better health, safety, and welfare for those in our communities.

Respectfully,


Lowell F. Parrish
City Clerk/Administrator

House E+NR
2-6-96
Attachment 18

The City of Glasco

JAN 18 RECD

GLASCO, KANSAS 67445

Box 356

Janaury 12, 1996

Ms. Joann Freeborn
P.O. Box 59
Ames, Ks. 66931

RE: HB2600 Retail Wheeling
Moratorium Bill

Dear Ms. Freeborn:

I, Carl Adkins, Mayor of the City of Glasco along with governing body members, Joan Barnum, Brian Berndt, Tammy Finnell, Wayne Nelson and Curtis Wolfe are asking you to support HB 2600 only if (1) the 3 year noratorium is retained and (2) no language is added to authorize pilot projects unless first approved by a task force.

We feel very strongly that a task force should be appointed to make a full study of all the very complex issues involved on electric retail wheeling.

It would be appreciated if you would contact members of the House Energy and Natural Resources Committee and explain your setiments on the issue to them.

Thanking you for your support.

Sincerely,



Carl Adkins
Mayor

AD:jd

KANSAS LEGISLATURE

State House Topeka, Ks. 66612

Distributed by

Rep. Joann Freeborn
Rt. 3 Box 307
Concordia, KS 66901-9105

House E+NR
2-6-96
Attachment 19