

Approved: Feb. 16, 1998
Date

MINUTES OF THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 1:30 p.m. on February 4, 1998 in Room 531-N of the Capitol.

All members were present except:
Sens. Hensley and Lee were excused

Committee staff present: Lynne Holt, Legislative Research Department
Mary Torrence, Revisor of Statutes
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:
Jim Widener, General Manager, Kansas Municipal Energy Agency
Louis Stroup, Jr., Executive Director, Kansas Municipal Utilities, Inc.

Others attending: See attached list

Sen. Ranson called attention to the Minutes of the Meeting of January 26 and 27 (Attachment 1). After reading the Minutes, Sen. Clark made a motion the Minutes be approved, and it was seconded by Sen. Brownlee; the Minutes were approved.

Sen. Ranson went over the agenda for next week with the committee and called attention to the KCCI Forum on Tuesday of next week and also to the fact that the committee will hold a hearing on Thursday for the unbundling bill at 1:00 in Room 313-S.

Sen. Ranson then introduced the following, who appeared as proponents for:
SB 491-municipal energy agencies:

Jim Widener, (Attachment 2)
Louis Stroup, Jr., (Attachment 3)

Committee members questioned Mr. Widener regarding how his agency is approaching deregulation, and he responded his agency is working on unbundling and cited two cities in particular. He stated that the municipals would be selling wholesale power and are working with cities under contract. Sen. Clark questioned Mr. Widener regarding contracts the municipals have and how they differ. Mr. Widener replied the cities who generate power generally have contracts with larger utilities at a lower cost. Cities who do not generate have to pay a "demand" charge during peak times, which is a higher rate. Sen. Clark also asked the typical length of time for their contracts, and Mr. Widener replied that they vary from five to fifteen years; that they have not intervened before the Corporation Commission on behalf of municipals; however, they have intervened on behalf of cities before the Federal Energy Regulatory Commission.

Attention was called to Section 2 of the bill, Lines 10 and 11, to remove the restriction and insert additional language to make it possible for KMEA members to sell electricity to brokers, marketers and other utilities. In answer to a question from Sen. Brownlee regarding members of KMEA becoming aggregators once retail wheeling is active, and Mr. Widener replied that with the proposed changes, they are precluded from selling retail; however, they will be working with the cities through the process. In answer to another question from Sen. Ranson, Mr. Widener stated it is possible that cities, who were previously not allowed to participate, could negotiate for lower rates. Mr. Widener stated they would have to wait until the contracts expire, then there would be a potential for lower rates.

Mr. Stroup spoke briefly in support of the bill and explained the restriction in the original bill was a compromise in order to get the legislation passed 21 years ago.

Committee discussed the bill and the proposed amendment removing the restriction, in Section 2. Sen. Salisbury made a motion the amendment be adopted, and it was seconded by Sen. Brownlee; the motion

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON UTILITIES, Room 531- -N, Statehouse, at 1:30 p.m. on February 4, 1998.

passed. Sen. Clark made a motion the bill as amended be passed, and it was seconded by Sen. Barone. Roll call vote was taken, and the bill as amended passed unanimously.

Sen. Ranson called on Mary Torrence to explain a Resolution regarding a Federal Energy Regulatory Commission's Order. Ms. Torrence explained the Order required natural gas producers to pay penalties and interest on refunds for property taxes, retroactive to 1983. This came about because FERC reversed its previous action in 1993. The Resolution supports federal legislation which asks for a reversal of the penalty and interest Order. Sen. Morris made a motion the Resolution be introduced, and it was seconded by Sen. Clark; the motion passed.

Meeting adjourned at 2:10.

The next meeting is scheduled for February 5, 1998.

Approved Feb. 4, 1998
Date

MINUTES OF THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 1:30 p.m. on January 26, 1998 in Room 531-N of the Capitol.

All members were present except:
Sens. Hensley and Morris were excused

Committee staff present: Lynne Holt, Legislative Research Department
Mary Torrence, Revisor of Statutes
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:
None

Others attending: See attached list

Sen. Ranson announced the distribution of a graph (Attachment 1) which shows the generation, transmission, and distribution phases of electrical power, as well as charts which show the average cost per kilowatt hour for residential, commercial and industrial. Another chart shows the average cost broken down by investor owned, municipal and coops and the average all class rate per kilowatt hour by provider, all are 1995 figures.

Also distributed to the committee is an article, which appeared in the Kansas City Star on Sunday and Monday, January 25 and 26, regarding gas pricing. The committee discussed the articles and the charts, and Sen. Lee questioned why individual consumers cannot have a choice of who to purchase gas from. Sen. Ranson stated it is her understanding that larger consumers, such as hospitals and schools, do have a choice and that wholesalers can negotiate contracts with the large consumer to supply the gas. Sen. Ranson recognized Earnie Lehman from Western Resources, who stated that if the customer uses 6,000 mcf's per month or more, then they can buy gas from whomever they want, which is a state regulation.

Sen. Lee questioned, since the committee has been studying electric utility deregulation which permits individuals a choice of providers, why are individuals prohibited from a choice for gas providers? Sen. Ranson believes that Kansas Gas Service is one such gas marketer in the state, which markets to large groups and believes there is more than one source available. Sen. Lee stated a desire to better understand the state regulation prohibiting individual consumers from choosing their gas supplier. Sen. Brownlee, who is a member of the Task Force on Retail Wheeling, recalled the discussions of classes of customers, and Ms. Holt referred to the Kansas City Star article, which has a graph showing different prices for different customers.

Sen. Ranson called on Lynne Holt to continue briefing the committee on retail wheeling. Ms. Holt referred to the Final Report of the Task Force on Retail Wheeling (available from the Legislative Research Department) on Page 13, Stranded Costs. She discussed the definition of stranded costs and market price and three categories of stranded costs which directly effect the market price as well as explaining calculating market price, using several assumptions. She also pointed out several studies which have been utilized to compute stranded costs. Ms. Holt continued on Page 17, and the mechanism for recovery of stranded costs and pointed out the bill requires stranded costs to be recovered through a unit charge per kilowatt hour of electricity delivered, with the amount to be assessed equally to all customers of a utility's service area. She also discussed bypassing of an incumbent's distribution and transmission facilities and the amount of time allowable for recovery of stranded costs on Pages 18 and 19 of the Report. Sen. Ranson added that the recovery of stranded costs has been a major problem in every state considering deregulation.

Ms. Holt continued her briefing by referring to Page 20 of the Report, and adjustment of rates for stranded cost recovery, and pointed out there is a provision in the bill for a review every two years to determine and redefine differences between actual and expected market prices and sales levels, known as "true-up" The Corporation Commission recommended they be given flexibility to ensure that recovered stranded costs surcharges match actual costs incurred. Ms. Holt then discussed securitization, on Page 21, which is refinancing a utility's existing capital debt structure with lower cost debt, the objective being to lower stranded costs. The committee discussed guarantee of bonds and changing their terms and conditions, who makes the decisions and other policy questions. Ms. Holt continued by referring to universal service, on Page 22, and explained "strandable benefits" and noted the bill recommends universal service costs include costs of assuring continued electric power to customers during implementation of the Cold Weather Rule and costs associated with provision of distribution to rural areas served by competitive generation providers. Questions the committee discussed were how to finance those costs and who will administer it. Uses of the universal fund are outlined on Page 23.

Meeting adjourned at 2:30

Next meeting will be January 27

Approved: Feb. 4, 1998
Date

MINUTES OF THE SENATE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairperson Pat Ranson at 1:30 p.m. on January 27, 1998 in Room 531-N of the Capitol.

All members were present except:
Sens. Hensley and Lee were excused

Committee staff present: Lynne Holt, Legislative Research Department
Mary Torrence, Revisor of Statutes
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:
none

Others attending: See attached list

Sen. Ranson announced committee members will have copies of a follow-up article from the Kansas City Star to the series appearing in the Sunday and Monday papers and that she plans on inviting someone to present to the committee more detailed information on natural gas marketing and pricing and asked anyone with that expertise to let her know.

Sen. Ranson then introduced Lynne Holt for continuation of the overview of the Report of the Retail Wheeling Task Force. Ms. Holt announced distribution to members of the following: map showing rates for all classes of gross revenue per kWh for 1995, (Attachment 1) and a memo from Alan Richardson, Executive Director of the American Public Power Association regarding 1995 data on revenue per kWh (Attachment 2). Ms. Holt also referred to the Kansas Government Journal, dated October, 1997, with an article by Kim Gulley entitled, "The Status of Retail Wheeling in Kansas" (published by the League of Kansas Municipalities), which she recommends to the committee.

The committee asked questions of Kim Gulley, from the League of Municipalities, regarding revenue data and how companies bring power into the state and how, and she explained technical aspects. Sen. Jones questioned how deregulation will affect all utilities and the gray areas which are troublesome to him. Sen. Ranson stated that municipals are not included in electrical deregulation, unless the city votes to be a part of it. Citizens can also petition to put the issue on the ballot; however, investor-owned utilities are included in the deregulation proposal.

Sen. Steffes explained customers in his district are not unhappy with the situation as it now exists, since McPherson has one of the lowest rates in the state. He explained McPherson has the second largest generating plant in the state and briefly explained its operation and added that Texaco is also co-generating power in El Dorado. Sen. Barone reminded it is the customers of the investor-owned utilities who have to pay the cost of deregulation, and we must not lose sight of that fact. Sen. Salisbury added that there is a difference between telecommunications deregulation and electrical power deregulation and that is the federal government's action which forced telecommunications deregulation. The federal government has taken no action on electric utility deregulation.

Sen. Ranson then recognized Chris Giles, representing Kansas City Power & Light, in the audience and introduced him and explained he is a member of the Task Force on Retail Wheeling.

Lynne Holt continued with the Overview of the Report on Page 26 and market power, which gives a company an unfair advantage over competitors, and she told of a pilot program in Illinois which set out standards of conduct. She also told of conversations she has had with an official in Rhode Island, who initiated deregulation in July, 1997, who told of publishing a consumer guide to educate the public before deregulating. From experiences in those states, surveys showed most residential customers had no knowledge of the deregulation process. Ms Holt also discussed consumer information, Page 27, and stated the need for common standards, who would provide consumer education and other policy questions. Pages 28 and 29 list measures included in the bill designed to inform the public. Another question considered by the Task Force is environmental characteristics, renewable energy ("green power") and imposing standards. The Task Force also considered the issue of consumer protection and requirements for standards of conduct and licensing

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON UTILITIES, Room 531- -N, Statehouse, at 1:30 p.m. on January 27, 1998.

requirements. Ms. Holt briefly discussed default suppliers, Page 30, and outlined two policy questions considered by the Task Force.

Other important information in the Report is as follows:

Part V, Page 36 - Summary of the Report

Part VI, Page 40 - 7- Proposed bill of the Task Force (**HB 2619-Electric utility restructuring Act; competition in retail sales of generation services**)

Part VII, Page 71 - Kansas Corporation Commission responsibilities

Attachment 3 - Minority Report

Attachment 4 - Number of utility customers

Attachment 5- Estimated distribution costs

Attachment 7 - Fiscal note attached to the bill

Sen. Ranson thanked Ms. Holt for providing an excellent overview to the committee.

Sen. Ranson then referred to the Minutes of the Meeting for January 15. Sen. Jones made a motion the Minutes be approved; it was seconded by Sen. Clark and the Minutes were approved.

Meeting adjourned at 2:30.

The next meeting is scheduled for January 28, 1998.



KANSAS KANSAS
MUNICIPAL MUNICIPAL
ENERGY GAS
AGENCY AGENCY

6330 Lamar Avenue, Suite 110
Overland Park, Kansas 66202-4247
(913) 677-2884
(913) 677-0804 FAX

TESTIMONY ON SB 491
Before Senate Utilities Committee
February 4, 1998

Madam Chair, members of the committee, I am Jim Widener, general manager of the Kansas Municipal Energy Agency (KMEA) located in Overland Park, Kansas. KMEA supports SB 491.

Background. The Municipal Energy Agency Act, K.S.A. 12-885 et seq. (the "Act") was passed in 1977. KMEA (originally organized as the Northwest Kansas Municipal Agency in 1978) was organized in 1980, and currently has forty (40) member cities. KMEA is the only Agency organized under the Act. KMEA provides its member cities the opportunity to participate in projects such as power supply, interconnections, and financing.

Provisions of SB 491. The proposed deleted language in Section 1 K.S.A. 12-886(b) eliminates the restriction on eligible member cities to those cities who generated "during the calendar year 1976". Of the one hundred twenty one (121) municipal electric cities, fifty eight (58) cities are currently not eligible to become members. Passage of SB 491 will allow those cities the opportunity to participate in joint action.

The proposed deletion in Section 2 K.S.A. 12-897 will allow Municipal Energy Agencies to sell electricity **wholesale** to all member cities as well as to marketers and brokers who did not exist in 1976.

Under present statutes marketers, brokers or other utilities can sell wholesale to municipal electric cities in Kansas, but Municipal Energy Agencies created to assist municipal electric cities are precluded from selling to them.

Senate Utilities
2-4-98
2-1

KMEA MEMBER CITIES

Ashland	Goodland *	Oberlin
Augusta	Greensburg	Osage City
Baldwin City	Herington	Osawatomie
Belleville	Hoisington	Ottawa
Burlingame	Holton	Pratt
Burlington	Iola	St. Francis
Chanute	Larned	Sharon Springs
Clay Center	Lincoln Center	Sterling
Colby	Meade	Stockton
Ellinwood	Minneapolis	Washington
Erie	Mulvane	Wellington
Fredonia	Neodesha	Winfield
Garnett	Norton	
Girard	Oakley	

* Membership request pending

MUNICIPAL ELECTRIC CITIES NOT GENERATING IN 1976

Alma	Glen Elder	Pomona
Altamont	Haven	Prescott
Arcadia	Hillsboro	Radium
Arma	Holyrood	Robinson
Axtell	Isabel	Savonburg
Blue Mound	Iuka	Scranton
Bronson	Kiowa	Seneca
Cawker City	LaHarpe	Severance
Centralia	Lindsborg	Seward
Chapman	Lucas	St. Marys
Chetopa	Luray	Summerfield
Cimarron	Mankato	Toronto
Dighton	Marion	Troy
Elsmore	Montezuma	Udall
Elwood	Moran	Vermillion
Enterprise	Morrill	Waterville
Eudora	Moundridge	Wathena
Galva	Mount Hope	Webber
Garden City	Mulberry	
Glasco	Muscotah	

TESTIMONY ON SB 491
Before Senate Utilities Committee
February 4, 1998

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

KMU SUPPORTS SB 491

KMU supports SB 491 which simply eliminates an outdated membership restriction placed on the Kansas Municipal Energy Agency.

KMU instigated the original KMEA legislation which was passed 21 years ago in the 1977 session to provide a useful **financing tool** for municipal electric generating cities who were suffering from heavy natural gas curtailments that began in the early 1970s. The electric cities needed a vehicle to assist them in meeting the challenge of planning for future power supplies.

The proposed amendments will allow KMEA to better assist Kansas municipal electric distribution cities in the **wholesale** arena – a part of the electric industry that Congress and the Federal Energy Regulatory Commission has opened up. The amendments do not allow KMEA to engage in retail sales.

Senate Utilities
2-4-98
3-1