Approved: April 3, 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 March 18, 1998 in Room 531-N of the Capitol.

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

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

Conferees appearing before the committee:
John McKinney, Vice-President, UtiliCorp United Inc.

Others attending: See attached list

Sen. Ranson asked committee members to read over Minutes of the Meeting for March 10 and 11 (Attachment 1). Sen. Barone made a motion the Minutes be approved, and it was seconded by Sen. Morris; the Minutes were approved.

Sen. Ranson announced an article which appeared in the Wall Street Journal, "Selling Power To the People Like Soap Suds", dated march 17, 1998, has been distributed to the committee.

Sen. Ranson then introduced John McKinney, Vice President-Electric Regulation, UtiliCorp United Inc., who gave a presentation on the future under retail wheeling, entitled "Energy Market Operations: A competitive Market in 2002" (Attachment 2). Mr. McKinney stated that in Kansas, UtiliCorp does business as WestPlains Energy and Peoples Natural Gas and stated that their rates have not changed since 1982; that UtiliCorp has a power marketer, Acquilla Power Corporation, which is totally separate from their other companies. He also stated that UtiliCorp funded a survey by Gallup that showed that 71% of their customers want to have a choice of electrical providers. Mr. McKinney also cautioned the committee not to judge the deregulation process from the experience California is going through and stated that UtiliCorp has decided they will not participate at this time, as it would be too costly; however, they may enter the market at a later date. Mr. McKinney stressed two things to the committee: the first is education and how important it is in the process and the second is the need to cause unbundling to happen soon. He also discussed the question of a universal service fund, and he encouraged the committee to enact one soon, as the smaller consumer will see his bills go higher; the larger customer's power consumption is more stable, and consequently, its rates are cheaper.

Sen. Steffes stated he is surprised at the outcome of their survey, as he has not heard a desire for choice from the public, and he questioned the benefit of continuing consideration of deregulation, and Mr. McKinney stated the results of the survey which was commissioned by UtiliCorp's, and cautioned the committee that Congress will not sit back and wait for it to happen; that Congress will mandate deregulation if the states do not act. Sen. Barone discussed the subsidy and asked the reason for the excess cost. Mr. McKinney answered that they are subsidizing in Missouri, at approximately 15%, and that the reason for the excess cost is the transmission and distribution costs; that it costs more to provide service to residential because of the peak usage times. Sen. Lee asked questions regarding unbundling, and her concern that the service will cost more for rural areas, so it is not advantageous to all areas. Mr. McKinney stated that with competition, the billing system would have to be changed. He stated that stranded costs will have to be addressed and commented that the California program includes recovering stranded costs; that he believes the best way to recover costs is to assess a distribution fee based on classes of customers. Sen. Morris discussed public policy with Mr. McKinney, especially unbundling and different rates for different classes of customers. Mr. McKinney stated he is not in favor of cross subsidies, that he believes customers want to pay the true cost of using energy in a competitive market, and that the customer will pay less in the end. He added that there may have to be a subsidy for rural areas, and that a social surcharge is the proper approach.

Sen. Clark questioned Mr. McKinney regarding the cost per kilowatt hour and if deregulation will reduce the cost and how. Mr. McKinney answered that new technology and more efficient generating units which are being developed, coupled with competition, will bring about a reduction from costs consumers are now paying. Sen. Lee referred to the Task Force Report and certificated territories and asked his opinion regarding local service and the need for certificated territories. Mr. McKinney stated providers can rent space on the wire, with a service fee being assessed for use of the facilities. She also questioned generation services and the problems that could cause in rural areas. Sen. Ranson commented on problems relating to deregulation of the telecommunications industry and asked if the small consumer's rates go up, why do we want to do this? Mr. McKinney stated the need for safeguards and imposing a surcharge.

Sen. Ranson announced the committee will continue discussions on **SB 686** tomorrow.

Meeting adjourned at 2:30.

The next meeting is scheduled for March 19, 1998.

SENATE UTILITIES COMMITTEE GUEST LIST

DATE: March 18, 1998

NAME	REPRESENTING
Shirley Huslig	JC Human Services + Aging
H. Huslig	"
John W. McKinney	UtiliCorp United Inc
J.C. Long	UtiliCorp United Inc.
Dick Carter, Jr.	ENRON
Larrie Ann Brown	KS Govt Consulting
Don K Miles	KEC
SHELBY SMITH	KSPG
Ron Gaches	McGill + Asso.
Amy A. Campbell	Midwest Energy Inc.
Heather Randall	Whitney Damron, P.A.
Leslie Kaufman	Ks Farm Bureau
Don Schnack	KIOGA.

Attach. L

Approved: MARCH 18, 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 March 10, 1998 in Room 531-N of the Capitol.

All members were present except:
Sen. Hensley was excused

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

Conferees appearing before the committee:
Rep. Larry Campbell
Steve Coleman, Supervisor, Natural Gas Pipeline Safety
Cindy Lash, Legislative Division of Post Audit
Maurice Korphage, Director, Conservation Division

Others attending: See attached list

Sen. Ranson referred to two articles which have been distributed to members - Kansas City Star, "Homeowners report gas-line concerns", dated March 9, 1998 and "Homes' gas lines broken, replaced", dated March 7, 1998, both relating to the bill being heard today. She announced the committee will hear testimony on the following bill:

HB 2743-Kansas underground utility damage prevention act

The following appeared as proponents:

Rep. Larry Campbell
Steve Coleman

She then introduced Rep. Campbell, who requested the bill, and he stated that the bill applies to gas and electric lines. The law, as it is now written, provides that in case of damage to lines, the utility company be notified. This bill clarifies that the call should be directed to 911, if available in that area, or the appropriate municipal, city or county emergency officials. Sen. Jones called attention to one of the amendments in the bill on Page 2, Line 43 and the word, "integrity", and questioned what it meant. Sen. Clark also questioned the other amendment, on Page 1, Line 43, regarding notification of emergency personnel.

Sen. Ranson then asked Mary Torrence to brief the committee on the bill. She also stated the bill is intended to clarify who to call in an emergency situation and explained the two amendments made by the House Utilities Committee. Sen. Clark stated before any excavation is started, the operator is to call 1-800-DIG-SAFE; he also pointed out the bill involves gas and electrical lines, but does not include telecommunications. Ms. Torrence responded that the purpose of the bill is to protect the public in an emergency situation and that telephone lines do not present a hazard as gas and electric lines. Sen. Ranson explained this legislation does not deal with notification before excavation begins, but who to notify in case of an emergency. The committee discussed the proposed amendment on Page 2, Line 43. Sen. Jones made the motion on Page 2, Line 43, the words, "the integrity of" be stricken, and it was seconded by Sen. Steffes; the motion passed.

Sen. Ranson then recognized Steve Coleman, who briefly spoke to the committee (Attachment 1) and stated he has been working with Rep. Campbell on the bill to clarify who to notify in cases of emergency and to enhance public safety. The committee continued by discussing procedures followed by excavators prior to excavation and customers who have special needs, such as life support systems, etc., and that is part of the utility's customer records. Sen. Brownlee told of emergency situations in Johnson County and expressed support for the bill, and Sen. Barone discussed security systems, which alerts the customer and company that lines have been cut. Sen. Brownlee made the motion the bill be passed as amended, and it was seconded by Sen. Clark. Roll call vote was taken, and the bill passed unanimously.

Senate Utilities
3-18-98
Attach. 1

Sen. Ranson then introduced Cindy Lash, Legislative Division of Post Audit, who reviewed the audit conducted on Activities of the Corporation Commission's Conservation Division: A K-GOAL Audit (copy is available from the Kansas Legislative Division of Post Audit). Ms. Lash went through the audit with the committee and explained recommendations made by the Audit committee. She also called attention to the response from the Corporation Commissioners and Maurice Korphage, Director of the Conservation Division. Committee members questioned her regarding over production of wells, if production records are public and any action taken by the Conservation Division.

Mr. Korphage briefly spoke to the committee regarding the Audit and recommendations in it. He referred to the documentation recommendation and explained the new data base system, which was purchased by funding from the Department of Energy. One of the programs, which has been upgraded, consists of a means to monitor salt-water injection wells by the Underground Injection Control Department. He also explained the data base is a customized system, which will allow them to implement other programs; one of those will be a tracking system. He also explained upgrading of the Licensing Division, with more than 400 operators required to provide more than the $50.00 minimum required by law. He agreed with the Audit that the Legislature did not provide where money collected would go, or how much money would go to the Conservation Fund. Don Schnacke referred to the Financial Assurance money that is collected and stated that, after the effective date of the Act, monies collected will pay for plugging wells; that the problem of plugging wells up to this time is pre-1935-40's.

Meeting adjourned at 2:30.

The next meeting is scheduled for March 11, 1998.

Approved: MARCH 18, 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 March 11, 1998 in Room 531-N of the Capitol.

All members were present except:
Sen. Hensley was excused

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

Conferees appearing before the committee:
Larry Headley, Director, Rates & Regulations for Neb./Ks., UtiliCorp United (representing Peoples Natural Gas)
Steve Johnson, Executive Director - Corporate Relations, Kansas Gas Service

Others attending: See attached list

Sen. Ranson asked committee members to look over the Minutes of the Meeting for March 5, 1998 (Attachment 1) and if there are additions and corrections, and there were none. Sen. Barone made a motion the Minutes be approved, and it was seconded by Sen. Steffes; the Minutes were approved.

Sen. Ranson then called the committees' attention to an article, which has been distributed to them, from the Kansas City Star, entitled, "Gas plan seeks to end winter's financial bite", dated February 28, 1998.

Sen. Ranson announced the committee will hear information on natural gas pricing and will hear from two speakers and asked that members hold questions until after the presentations. She then introduced Steve Johnson, who gave some history on his new company, Kansas Gas Service, and told of recent projects and issues and options offered by his company (Attachment 2). She introduced Larry Headley, who told of the changes since the 1930's, described Peoples' trends, programs they offer and the benefits (Attachment 3). He pointed out that in some states residential customers are deregulated and that Nebraska offers residential customers a choice of suppliers and explained pricing options from his outline (No. IV). He stated the importance of the educational process and the benefits (No. V of his outline).

Sen. Ranson then opened the meeting to questions, but stated that she wanted to clarify several points. She asked both speakers questions regarding the threshold level for their companies to open options to customers for purchasing gas. Mr. Headley clarified that options are available to small commercial and industrial at the 500 mcf per year (the average residential is 100 mcf per year); and it is also available to a large volume classification, who use over 5,000 mcf, i.e., such as schools, colleges, etc. As outlined in his remarks, Mr. Johnson confirmed that options will be available to customers who use over 6,000 mcf per year, with additional pricing/hedge programs available, if approved by the Kansas Corporation Commission. Sen. Ranson then asked John Cita, from the Corporation Commission, if the Commission has policy/rules prohibiting options (deregulation) available to customers, and if so the threshold level. Mr. Cita replied he did not know if there were any rulings in Kansas designating the levels, classifications or options (deregulation) available to customers. Mr. Headley pointed out the program is based on classification of customers and stated they are attempting to determine how much choice customers want. Sen. Ranson then asked if there is a choice of suppliers to customers in Wichita. Mr. Headley answered there is dual certification in Wichita, which is an exception in Kansas. Mr. Cita confirmed there is dual certification in Sedgwick County and some options are offered in Douglas County, but are limited.

Sen. Lee stated she had several questions for the speakers. She asked both the speakers if there is any incentive to save on cost and pass it along to customers. Mr. Headley answered that the 1997 spikes in price was a big incentive and one way to eliminate spikes is to use hedging. They also discussed using the index and if there is manipulation. Mr. Headley explained they use the index, and they are aware the way gas is priced is the way they have to charge their customers. He reminded the committee the index is an estimate and cannot be predicted. He also discussed who determines PGA's and the reconciliation at the end of the month as well as at the end of the year. Sen. Lee stated the importance to residential customers of having the opportunity to purchase gas as cheap as possible and asked Mr. Headley how long it will be before his company will be able to offer deregulation (choices) to residential customers. Mr. Headley answered it will be at least a couple of years.

Mr. Johnson stated his company's incentive to keep gas prices low is their customers. He described the situation in 1997 when gas spikes occurred and the number of calls received from unhappy customers; that their intent is to keep gas prices as low as possible. He went on to explain the index and hedging techniques. He stated gas is bought in the field via long-term contracts based on the index; that the price of gas in the field is driven by demand for gas in the Northeast, i.e., Detroit, Chicago, etc. Disparity of distance comes into play and they have to have some standard, and thereby use the index. Sen. Lee also asked Mr. Johnson if he is concerned with the futures market, and he answered he is not; that they are ready to address manipulation.

Sen. Steffes discussed with Mr. Johnson the price of oil and if it is directly related to natural gas prices, and Sen. Barone asked Mr. Jonson questions regarding the "weather proof" plan. Mr. Johnson explained the plan is based on hedging on the weather and gave as an example - if a customer pays $600 per year, the monthly charge would be $50 per month for gas service. If total service charges at the end of the year totaled $700, the company would lose $100; if the annual service charge is $500, the customer would lose. He stated it is a risk taken by both the customer and the company. He added it is a test plan and the largest pilot program being underwritten by the test program sponsors. Sen. Barone also asked how they picked the territory being offered the plan, and Mr. Johnson answered it is being offered in the western part of their system which has a good mix of customers; it will be offered to 100,000 of their 600,000 customers in the state. He anticipated it will be offered by late summer and implemented by September or October. Sen. Morris asked questions regarding closing local customer service offices, and Mr. Headley answered he realized the drawbacks, but that the company felt it was necessary financially.

Sen. Ranson asked the speakers if there is anything to stop full competition in selling natural gas - is there a law or regulation which prohibits that? Both Mr. Headley and Mr. Johnson answered there is no prohibition against it. She referred to Mr. Cita, and he indicated there is no federal or state law which would prohibit that. Sen. Ranson emphasized there is nothing stopping the deregulation of natural gas to legally to occur; that it is possible to consider a bill to mandate full competition, but the companies could voluntarily do that now; that allowing full competition to residential customers could happen soon. Mr. Johnson answered that his company is close to opening up competition for residential customers.

Sen. Ranson announced the committee will hear from a gas marketer tomorrow.

Meeting adjourned at 2:30.

The next meeting is scheduled for March 12, 1998.

Attach. 2

ENERGY MARKET OPERATIONS:

A COMPETITIVE MARKET IN 2002

By: John W. McKinney
Vice President-Electric Regulation
UtiliCorp United Inc.

March 18, 1998

Senate Utilities
3-18-98
Attach. 2

ENERGY MARKET OPERATIONS
COMPETITIVE MARKET
January 1, 2002

Good afternoon, I am John W. McKinney, Vice President-Electric Regulation for UtiliCorp United Inc. I am very happy you have been kind enough to allow me to come here today and share some of our thoughts with you.

UtiliCorp United is an international, growth-oriented energy and services company with 4,500 employees and assets of $4.7 billion. The company, headquartered in Kansas City, Missouri, has approximately 2 million electric and natural gas customers in eight states, one Canadian province and Australia. UtiliCorp also owns interests in two electric utility companies in New Zealand and markets natural gas to wholesale customers in the United Kingdom. In the State of Kansas, the company is doing business as WestPlains Energy and Peoples Natural Gas. In 1995, the company launched EnergyOne, the first nationally branded line of products and services for electric and gas utility companies.)

Predicting trends and changing with the times is a challenge in any business – but none is more difficult than the task facing energy companies in the $310 billion electricity and natural gas utility industry. Factors driving utility industry change are the convergence of deregulation; the introduction of new technologies; and the expected entry of experienced non-utility retailers into what has long been considered a staid monopoly business.

2-2

UtiliCorp's goal is to prepare its businesses for the time in the not-distant future when full customer choice will be a reality in the natural gas and electricity markets. And the companies that will succeed in this new environment will be the ones that have creative employees that find ways to navigate in this challenging marketplace.

UtiliCorp is looking forward to a truly competitive energy market in which all classes of customers can receive the full benefits of competition in then energy marketplace. The company was one of the first electric utilities to file an open access tariff with the Federal Energy Regulatory Energy Regulatory Commission which is restructuring the electric industry. UtiliCorp believes that the electricity industry has evolved to a point where smaller generating units are no more cost effective than the huge units constructed in the past. Transmission and distribution of electricity can remain regulated monopolies, while other parts of the business are open to competition. The future market will result in many new products and services for the energy customers.

An example of the new services and products consumers and businesses will enjoy is in the creation of UtiliCorp's EnergyOne, L.L.C. partnership, jointly held by UtiliCorp and PECO Energy Company, the 15th largest electric and natural gas utility in the United States. EnergyOne is the industry's first nationwide branded energy marketing company designed to speed the benefits of competition to other utilities and consumers.

EnergyOne serves as the management clearinghouse responsible for developing relationships with suppliers, evaluating and selecting new products and services, and establishing wholesale pricing mechanisms. Participating utilities serve as retail distributors of products, drawing upon EnergyOne's national marketing identity and support. This identity would be similar to initiatives of other market entities such as

Century 21 in real estate, True Value Hardware stores and banks offering nationally branded credit cards.

EnergyOne operates as a separate enterprise that integrates traditional energy services with other product under the EnergyOne label. These products include residential telecommunications, and home and business electronic security in addition to billing services for businesses.

Currently, EnergyOne is marketing AT&T's residential communication services; AT&T Solution, which will establish and manage an integrated national call center and billing system; and ADT's home and business electronic security offerings.

EnergyOne obtains revenues from franchise, royalty and transaction fees from participating distributors and suppliers. It is our view that participating utilities joining EnergyOne will be positioned to retain customers, compete more effectively in a new energy marketplace, and stake a claim on the leading edge of an entirely new business category – integrated utility services.

In its effort to be an energy industry leader, UtiliCorp is positioning its business strategies in line with what we believe the future holds for the industry. Among the changes we foresee are:

- Creation of a single integrated market for all kinds of energy across the United States. As the electricity market deregulates, electricity, natural gas and natural gas liquids will increasingly converge into an integrated market that services all classes of customers.

- Energy customers will be the driving force for the industry instead of regulatory agencies. All customers will have access to unregulated energy and related services from wholesale and retail marketers. And energy supply contracts will be short-term – from one to five years. Also, Short-term wholesale sales will be regionalized in the future with retail sales made in a variety of approaches, including telemarketing.

Product reserve margins maintained by retailers will be much lower than those traditionally maintained by utilities. This will create surplus capacity and energy supply for consumers. Also, marketing affiliates of local distribution companies will be required to operate at arm's length from the local distribution companies.

- In the new energy future, electricity will become a more formidable competitor for natural gas. It is anticipated that new pricing will develop that is tied to: load factor, firmness, volume and type of use. Also many large energy users will switch to interruptible service for part of their energy needs. In this deregulated environment, most customers will contract with retailers for service, although some customers will establish energy-buying departments or co-ops.

- Energy transactions will grow at a rate of 15 to 20 percent for a number of years. However, it is envisioned that the overall energy market will grow at a modest pace of 2 percent to 3 percent a year. As a result, this new competitive environment will create a marketplace with fewer but larger-scale wholesale energy providers. These large companies will survive because they possess the resources and insight in knowing how to best serve energy customers.

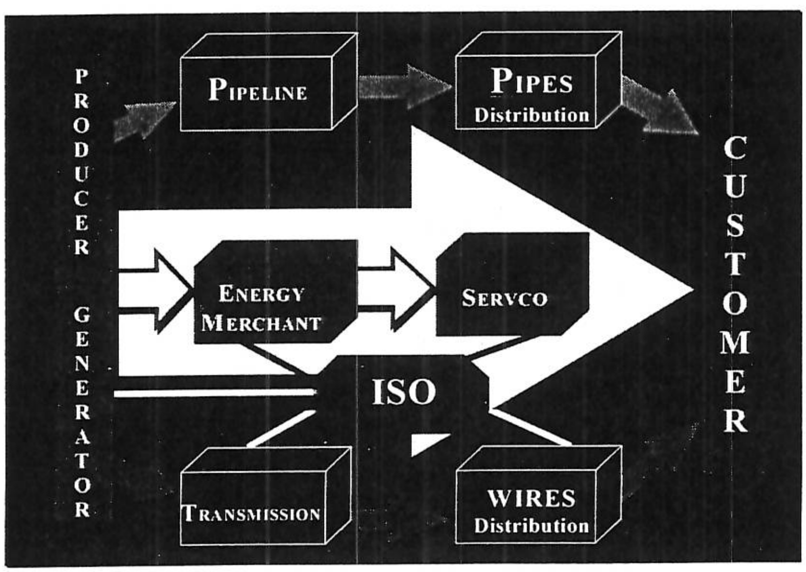
I have shared some information about UtiliCorp and some of our actions to prepare for this new market, but what will be happening in the State of Kansas after competition does come to the electric industry for all consumers in the state. Let's take a look into the near future.

The Year: January 1, 2002
The Place: The State of Kansas

After many years of discussion, the electric industry will find it a way to a competitive market, there will a transformation to a market where the customer has total and complete choice in regards to his energy supplier. Now in this new world, the energy customer will have to make choices, and we all know, sometimes when we make choices we create new problems for ourselves.

This new market will look very different from the one we see today and will include an increased number of players. The following figure depicts a model that may represent that new market. As can be seen, all the various sellers and operators are engaged in the concept of moving energy to the customer. This model has been used by UtiliCorp United for the past several years to present the competitive market to many audiences.

A COMPETITVE MODEL



2-6

I would like to spend time today on the most important player in the model, **the customer.** Let's go into the future and see how the average consumer dealt with the changes in the energy market.

- **How did the average customer deal with this new market that he knows nothing about today?**
- **How was the average customer able to buy his power competitively when he had to compete for energy with large purchasers?**

These are real questions that maybe a quick look into the future can help us answer.

The average customer in the future has to have received a large amount of education from the various responsible concerns which were responsible for his energy needs in the previously regulated market. The parties that have taken part in the customer's education included the regulated public utility (including municipal and coops) which are providing the customer with energy today, the regulatory body that is empowered with the responsibility of regulating public utilities (the Kansas Corporation Commission, KCC) and the agency that ensures that the small customer's rights are represented before the regulatory body (CURB). These groups will have spent a great amount of time and effort following the direction of the State's legislature to ensure a comprehensive consumer education program is developed and put into place in the state.

The KCC has been charged with the responsibility to develop an educational task force to focus on the need for consumer education two years before actual competition was started. This task force was chaired by the KCC and is continuing after the competitive market is in place to address through a collaborative approach the ongoing information needs of the consumer.

The costs of this educational program is to be met through the use of a social surcharge, not subject of bypass, on the distribution system. This surcharge is to be collected on the basis of Btus consumed and imposed "at the meter." This surcharge was established in this manner in order to ensure that all consumers contribute to the payment of such charges and even in the consumer switched fuels, the surcharge was still payable. The State reviewed the possibility of imposing a new tax to pay for the educational effort, but decided the distribution surcharge was a fairer way of collecting the necessary funds.

In developing the consumer education program the KCC Task Force decided that the education needed to be proved in phases. Those phases were as follows:

- **What restructuring meant to them as a customer so they could participate in the debate.**

- **Information about the specific legislation that was enacted was provided through printed material and special public meetings that ensured all consumers learned what choice meant and how they would go about selecting their energy supplier.**

- **Technical issues like reliability, service quality and the economic stability of the supplier were translated into information that the average consumer could understand and use.**

- **The public utilities unbundled their billing charges so the consumer could learn what they were paying for each type of service or product.**

- **Continuing information was provide to the consumer about the market in a format that they could trust and depend on over time. Consumers were provided information about price, quality of service, stability of providers, and the risks they will face and how to handle these risks.**

The legislature final actions determined that a direct access model for customer choice was better for all the customers over the possible choice of a state-wide Poolco. The Poolco was found to favor the existing public utilities and actually work as a barrier to a competitive market.

In the direct access market all ServCos are required to be licensed by the state. The KCC was given the legislative authority to license all ServCos serving customers in the State of Kansas. No ServCos from the state of Rhode Island are allowed to operate in the state. These ServCos transmit the energy needed for the State through a regional Independent System Operator (ISO) that serves the eastern part of the United States. There are only 3 ISOs in the country, but they are subdivided into 23 control areas.

The FERC had challenged all utilities to form ISOs, but the utilities could not reach agreement as to how these new transmission operators should function. The FERC seeing this debate was slowing the development of the wholesale energy market, ordered the formation of the ISOs and set the pricing policy and the income sharing format for the utilities.

The licensing requirements of the state ensure that the ServCos comply with all safety and service requirements established by the legislature and the KCC. These requirements ensure that the ServCos are financially sound, complies with all KCC billing rules, metering policies and practices, reliability standards and complies with the consumer privacy standards. These ServCos will own and directly sell, on a bilateral basis, the energy and capacity needed by their customers. All consumers of the state have access to all ServCos operating in the state. The direct access takes the form of individually negotiated contracts for service. Many customers, mainly smaller consumers, did not wish to deal with the ServCos directly and decided to use an aggregator to assist them in gaining access to the competitive market. The aggregators, some of which are the present public utilities that are offering this service for a small fee, act as a broker to aggregate the load and therefore enable them to purchase power at a more competitive price. Through the use of this market structure the consumer is able to structure there power needs contracts to meet their individual needs.

In the new market, we see generators, marketers, utilities and their affiliates operating as ServCos and aggregators. The main difference is that the ServCos must be licensed by the state in order to protect consumers. These service companies have the ability to offer many services that the consumer may purchase at a single source if they wish. The consumer may purchase their energy needs, billing, metering, meter reading, and other energy products as they are developed. Those companies that offer metering and billing services are subject to strict accuracy and safety standards set by the KCC.

There was great concern that the smaller customers would pay more in a competitive market than in the regulated environment because the industrial customers are subsidizing part of the cost of serving the smaller customers and this is not possible in a truly competitive market. The legislature decided that the subsidy in the commodity could not continue and required the KCC to order all electric utilities to restructure the prices that were being charged all customers to remove this cross-subsidy. The legislature did establish a social surcharge that is collected in the distribution fees to assist those customers that must have assistance in paying their electric bills.

After the rates were properly structured in the regulated market it became very apparent that all customers would see benefits from the price of energy on the competitive market versus the true cost of energy in the regulated environment.

The smaller customers that did not want to deal with energy suppliers themselves, decided to use an aggregator to assist them in purchasing energy. It became very clear early on in the decision making process that formed the new competitive market, that not all customer would want to deal with the energy suppliers and many customers will not feel confident that he has the skill to find the best price for his energy needs. The aggregators that developed, some of which are affiliates of the public utilities, performed this purchasing function for these customers. The aggregators charge a small fee for their services. There are many aggregators in the market, therefore their fees are very competitive and regulation of the fee structure is not needed.

The Real World: Today

I can continue to offer my thoughts on what this new competitive market will look like, but Kansas has to decide how to do it. If you look around you see every state in the union trying to find the same answers to the same questions. The state must decide if competition is going to be a reality or just something to talk about. There are very serious issues and the task force that work on this issue has addressed many of those for the state. Before anything can really happen, the customers must receive the education to understand the issues and the price they are paying for the various products and services today. I would recommend that the KCC start meeting to discuss many of the details in putting competition into place. If the legislature has the KCC wait until the last minute to develop the detail regulations and rules necessary to transform this market from a regulated one to a competitive environment, this transformation will be a long time in coming. The KCC now believes it should not have any meetings or investigations into this matter until the legislature completes its work. The KCC should start now in developing the necessary details in carrying out the very basic concepts, consumer education and unbundling of price, that are necessary under any competitive model. I first testified before the Kansas legislature 2 years ago on this issue. We need to move forward and establish the competitive model that is to be put into place in the state and have the KCC attack the "devil in the details" before much more time is gone.

To meet these changing business scenarios, UtiliCorp has a foundation of core beliefs that play a vital role in the company's strategy for future success in the energy business. These beliefs are that:

- Industry competition is better than government regulation. American industry's ability to compete in the global economy depends upon the availability of plentiful low-cost energy. History proves that competition and customer choice is most effective in ensuring that industry and consumers receive cost-effective, reliable energy products and services.

- UtiliCorp further believes that a competitive environment allows energy buyers and sellers to meet on a level playing field. As a result, energy consumers and suppliers should have no regulatory barriers between them, and all utilities should provide access to their facilities to all classes of consumers. Any barriers to competition such as public power exemptions, preferences, subsidies and uneven taxation should be eliminated.

- The company believes that utilities should be allowed to participate as unregulated sellers. A competitive marketplace should include as many diverse energy buyers and sellers as possible. Utilities should not be barred from participating in this process.

- Additionally, all customers should have the right to benefit from the emerging competitive energy marketplace. Energy customers of all classes should have the opportunity to enjoy lower prices and freedom to choose new products and services.

- UtiliCorp believes that the transition costs of restructuring the utility industry will be justified by the long-term benefits that consumers will enjoy. A customer-choice energy market should occur as quickly as possible. Stranded costs -- those utility investments made uneconomical in a competitive market – must not be allowed to block the transition to competition.

- From our perspective, traditional utility services should be unbundled to allow competition to replace regulation. Every aspect of utility service other than the monopoly functions of transmission and distribution should be unbundled. Services such as production, transmission, distribution and energy sales would enter the free marketplace.

- We believe a utility's obligation to provide services should be in line with the extent of the deregulation process. Once the market for one of these unbundled services is competitive, no utility should be required to serve customers who do not have similar obligations to take the service.

- Our belief is that competitive pressures should be the driving force in forming the structure of the utility industry and user groups. Realities of the marketplace and not regulators should make the vital business decision about the framework of the Utility business. Without question, our country's existing laws concerning monopoly services are sufficient without industry structures being imposed by the government.

- UtiliCorp believes that incentive regulations should remain performance based for utility functions that remain regulated. These performance based regulations will help in promoting safety, efficiency and a high-quality of customer.

- It is also our position that historical contracts in the utility industry be in force to provide financial stability. And all contracts negotiated in an competitive environment should be allowed to operate without regulatory interference.

- Finally, a strong commitment to preserving the environment must be maintained by both the regulated and non-regulated portion of the industry. Our concern for environmental preservation must encompass global, national and regional situations.

Thank you for this opportunity to offer my thoughts about the future for your consideration.