Approved: Carl Dean Holmes
Date 4-29-99

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl Holmes at 9:10 a.m. on March 8, 1999 in Room 522-S of the Capitol.

All members were present except:

Committee staff present: Lynne Holt, Legislative Research Department
Mary Torrence, Revisor of Statutes
Jo Cook-Whitmore, Committee Secretary

Conferees appearing before the committee: David Banks, Wichita Public Schools
Victor Braden, United School Administrators
Jim Ludwig, Western Resources
Bruce Graham, KEPCo
Larry Holloway, KCC
Burton Crawford, KCPL

Others attending: See Attached List

The Chair announced that the committee would recess at 9:30 for approximately 15 minutes.

Hearing on SB 186 - Certain school district expenditures exempted from bid procedures.

Chairman Holmes welcomed David Banks, Energy Manager for the Wichita Public Schools, who testified in favor of **SB 186** (Attachment 1).

Victor Braden, Legal Counsel for the United School Administrators of Kansas, provided testimony in favor of **SB 186** (Attachment 2).

Chairman Holmes stated he had received a phone message from Gary George, Assistant Superintendent for the Olathe School District, who supports **SB 186**.

The conferees concluded their testimony by responding to questions from the committee.

Chairman Holmes announced the committee would plan on working this bill a week from today.

The committee stood at recess from 9:22 a.m. to 9:48 a.m.

Hearing on SB 243 - Electric generation facility siting act applicable only to nuclear generation plants

Chairman Holmes introduced Jim Ludwig, Senior Director of Regulatory Affairs for Western Resources, who testified in favor of **SB 243** (Attachment 3).

Bruce Graham, Vice President of Member Services & External Affairs for Kansas Electric Power Cooperative, Inc., testified in support of **SB 243** (Attachment 4).

Larry Holloway, Chief of Energy Operations for the Kansas Corporation Commission, stated that the KCC did not take a position on the bill (Attachment 5).

Burton Crawford, Kansas City Power & Light, testified in support of **SB 243**. He stated the primary reason was that it would remove an impediment to bring new generation to this part of the country. KCPL recently went through the process for siting of a new small combustion turbine in Missouri. The process took approximately 10 months and a substantial amount of money. Until the siting permit is in hand, no site procurement or preparation can begin.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES, Room 522-S Statehouse, at 9:10 a.m. on March 8, 1999.

Chairman Holmes announced that he had received a letter from the Speaker, who recommended that **HB 2400** and **HB 2495** be put into **SB 243.** The Chair confirmed with Mary Torrence, Revisor, that they were germane. Chairman Holmes also indicated that a request would be made, as soon as appropriate, for an Attorney General's opinion on the section of **HB 2400** dealing with IPP's being defined as non-public utilities. The Chairman then indicated that the conferees would be allowed to respond to the Speaker's request.

Jim Ludwig, Western Resources, spoke to **HB 2400.** He stated they prefer that the bills be kept separate. He also spoke on the definitions and background on the 25% and 33% tax rates and their applicability.

Bruce Graham, KEPCo, also spoke to **HB 2400.** He stated that they would like to be able to pull plants out of rate base, if that were possible. Basically, they just want to have a level playing field.

Larry Holloway, KCC, followed up on the comments about removing plants from rate base. He stated that the way the bill reads now, if you pulled Jeffery Energy Center out of rate base and made it a separate entity, and you no longer had to go to the Commission and ask for ROE on the book value of the plant and interest, you would instead write a long term contractual obligation and it would not be treated as a rate base, but as an expense.

Additional comments about amending **HB 2400** and **SB 243** were shared among conferees and committee members specifically about the transmission line siting.

Conferees then responded to questions on **SB 243** from the committee.

Ed Schaub, Western Resources, made comments regarding **HB 2495**. He spoke to the committee amendments regarding the removal of representatives from the Department of Commerce & Housing and an environmental technology expert. He believes that those positions should be retained. He also questioned the change on merger related membership loss and how mergers between other entities should effect the number of members.

Meeting adjourned at 10:46 a.m.

Next meeting is Tuesday, March 8.

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 8, 1999

NAME	REPRESENTING
Joe Dick	BPUKCK
Don K Miles	KEC
DICK CARTER, JR	ENRON
BURTON CRAWFORD	KCPL
Jim Ludwig	Western Resources
BRUCE GRAHAM	KEPCo
RICHARD MAXWELL	A+L Underground
Dave Holthaus	Western Resources
Vic Braden	USA
David Banks	Wichita Public Schools
Diane Gjerstad	Wichita Public Schools
Sandy Braden	McGill, Gaches & Assoc
John C. Bottenberg	Western Res.
Stacy Pickens	citizen, ~~A~~ RN
Sandra L. Smith	small business - Russell Cty

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 8, 1999

NAME	REPRESENTING
Larry Holloway	KCC
ED SCHAUB	WESTERN RESOURCES

WICHITA
PUBLIC SCHOOLS

Energy Management/Education

Telephone - (316) 833-2004
Fax - (316) 833-2150

House Utilities Committee
Representative Carl Holmes, Chairman
Testimony on SB186
March 8, 1999

David Banks
Energy Manager
Wichita Public Schools

Mr. Chairman, Members of the Committee:

Thank you for holding a hearing on SB 186.

Exempting natural gas (an openly traded commodity with an increasingly volatile market) from the bid statute will provide school districts the freedom necessary to respond to rapidly changing market conditions.

Currently our school system purchases natural gas using the following steps:

- Research and preparation of a request for bid.
- At a date approximately 30 days before the expiration of the current natural gas contract, a request for bid is put out to all known qualified vendors.
- Since all contracts represent a purchase of over $10,000, all responses must be submitted by sealed bid.
- A scheduled public bid opening takes place. At which time, a contract can be awarded following analysis of the bids to determine low responsible bidder.
- At the time of the award all prices must be refreshed (a new price quote given which reflects any changes in the market). {Please note that no vendor has given us a price quote in the last two years <u>without</u> the provision that the price be refreshed to reflect current market conditions.}

The sealed bid process may take as much as four to six weeks. Given natural gas market conditions, which change minute by minute, it is unrealistic to ask a vendor to hold a price for the length of time necessary to respond with sealed bids.

Passage of this bill will allow school districts to employ market trend analysis and timely responses to market fluctuations to secure more advantageous pricing.

Motor fuel used for transportation purposes is currently exempt. Attached is a phone quote sheet used by USD 259 for the purchase of such motor fuels. Please note that multiple vendors are represented to insure fair market price. Phone quotes are used to speed up the process, allowing USD 259 to make a timely decision and vendors to cover their market positions. The purchase of natural gas would follow a similar practice.

Thank you for hearing this bill. I will stand for any questions the committee might have.

HOUSE UTILITIES
DATE: 3-8-99
ATTACHMENT 1

FUEL QUOTE SHEET

REVISED 10/22/98

DATE: ____________________

ORIGINATOR: ______________________________ EXTENSION # ____________________

DESTINATION/DESCRIPTION: ____

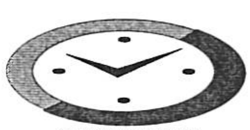
____

____

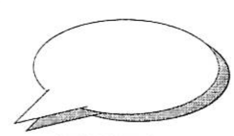
VENDER AND QUOTED PRICE: ____

REQUISITION #: ____________________ P.O. #: ____________________

ANDALE FARMERS COOPERATION (TOM STRUNK)	444-2141	
HAMPEL (Ken, Ed, or Mary Lou)	529-1162	
WENGER OIL (Barry or Janelle)	1-800-527-8795	
T & E OIL (Ben or Debbie)	832-0143	
KLEPPER (Don)	838-9341	
SUNCOAST-HOUSTON, TX(JOHN)	1-800-677-3835 EXT. 662	
A-1 PROPANE	838-5711	
PARKER OIL (Pat or Pat Club)	744-1541 or 744-2006	
PAWNEE PETROLEUM PRODUCTS (Lori)	1-800-399-1562	
FUEL MANAGERS (Rob Case)	1-800-375-3835	
TRUMAN ARNOLD CO. TEMPLE,TX(DAN)........ ....(DAN REYNOLDS OR DANNY BELK).....	1-800-349-3393	



@ SSC DEL. BY 3:00



QUOTE CUT OFF @

NORTHWEST & EAST - Small Loads

ONLY Hampel, Andale Co-Op, & Parker Oil can handle
ABOVE GROUND & HAS TO BE PUMPED

PROPANE SUPPLIERS -

Andale co-Op, Hampel, T & E, Pawnee Petroleum, & A-1 Propane

1-2

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Coordinator

USA
UNITED SCHOOL ADMINISTRATORS

Kansas Association of Elementary School Principals (KAESP)

Kansas Association of Middle School Administrators (KAMSA)

Kansas Association of School Administrators (KASA)

Kansas Association of School Business Officials (KASBO)

Kansas Association for Supervision and Curriculum Development (KASCD)

Kansas Association of Special Education Administrators (KASEA)

Kansas Association of Secondary School Principals (KASSP)

Kansas Council of Vocational Administrators (KCVA)

Kansas School Public Relations Association (KanSPRA)

Senate Bill 186: Exception to sealed bids

Testimony presented before the House Utilities Committee

by

Victor J. Braden, Legal Counsel
United School Administrators of Kansas

March 8, 1999

Mister Chairman and Members of the Utilities Committee

United School Administrators of Kansas is supportive of the amendment of K.S.A. 72-6760.

This proposal will allow local school districts the flexibility to purchase natural gas without the administrative burden of the sealed bidding procedure. Additionally, the fluctuations in natural gas prices make freedom of purchase timing essential for cost savings to the schools.

820 SE Quincy St Suite 200 • Topeka KS 66612-1165 • 785.232.6566
FAX 785.232.9776 • www.ink.org/public/usa

HOUSE UTILITIES
DATE: 3-8-99
ATTACHMENT 2

Testimony
before the
HOUSE UTILITIES COMMITTEE
by
Jim Ludwig, Senior Director, Regulatory Affairs
Western Resources
March 8, 1999

Chairman Holmes and members of the Committee:

Western Resources supports Subst. SB 243. The bill amends the generation siting act to make it easier to build power plants in Kansas. The current siting act imposes an unnecessary burden on building needed generation capacity. Our neighboring states do not have siting acts. Western Resources believes Subst. SB 243 will encourage building plants in Kansas.

What the Siting Act Does

Under the siting act, a siting proceeding before the KCC is intended to determine the need for new generation and, if need is shown, whether the proposed construction is the most economic way to fulfill that need.

What the Siting Act Does Not Do

The KCC does not allow recovery of the costs of constructing the new generation in the context of a siting act proceeding. That takes a separate rate proceeding. KCC siting approval does not mean customers will begin paying for the new plant.

Siting a plant requires approvals other than, and in addition to, the current KCC siting approval. Amending the siting act as proposed in Subst. SB 243 would not exonerate utilities or non-utilities from any environmental agency proceedings or requirements, local ordinances, or other non-KCC requirements.

Western Resources Supports Subst. SB 243

This bill would make the siting act apply only to construction of new nuclear generation. Other types of generation could be built without undergoing a siting act proceeding. I don't think anyone will propose building more nuclear generation in my lifetime, but I'm sure there would be resistance if someone tried. The siting act would provide an extra venue for resistance.

This bill would allow new entrants (e.g., merchant plant operators) the same opportunities as incumbent electric utilities.

Western Resources supports Subst. SB 243 and encourages the committee to advance it.

HOUSE UTILITIES
DATE: 3-8-99
ATTACHMENT 3

KEPCo

Kansas Electric Power Cooperative, Inc.

A Touchstone Energy℠ Partner

Testimony on Substitute for SB 243

Before the House Utilities Committee -- March 8, 1999

Bruce Graham, KEPCo's Vice President, Member Services & External Affairs

KEPCo supports amendments to the Kansas Electric Generation Siting Act as outlined in Substitute for SB 243. It was the wisdom of this Committee to review this identical language in HB 2400 and approve it in the bill as amended. KEPCo testified as a proponent of the siting act amendments because our projections parallel those of other planners across Kansas--the state will soon be short on electricity generation. In response, we should relax these regulations in order to encourage generation groundbreaking in Kansas and provide more reliable service to all Kansas consumers.

KEPCo does not have immediate power plant construction plans. However, KEPCo supports this bill because we supply about one-third of the energy demanded by our member cooperatives from contracts we have negotiated with other utilities. We constantly evaluate those contracts and other options and believe that encouraging new generation in Kansas, by native utilities or independent power producers, will provide KEPCo with additional power supply flexibility in the future.

HOUSE UTILITIES

Phone: 785/273-7010 • Fax: 785-271-4888 • Home Page: www.
Mailing Address: P.O. Box 4877 • Topeka, Kansas 66604-0877 • Street Address:

DATE: 3-8-99

ATTACHMENT 4

BEFORE THE HOUSE UTILITIES COMMITTEE

PRESENTATION OF THE

KANSAS CORPORATION COMMISSION ON

Substitute for SENATE BILL No. 243

Thank you Mr. Chairman, and members of the committee; I'm Larry Holloway, Chief of Energy Operations for the Kansas Corporation Commission and I'm appearing today on behalf of the KCC. The KCC takes no position on this bill. The purpose of my testimony is to provide some background information regarding the electric generation facility siting act.

In 1979 the legislature passed the generation siting act. During this time period Kansas utilities were actively engaged in the construction of 3 large base load coal units and the Wolf Creek Nuclear Plant. The generation siting act requires that any entity wishing to construct a power plant must first get approval from the Commission. The Commission is required to consider the need, cost, location and feasibility of the facility before granting a siting permit.

In 1979, with the exception of small cogeneration and some renewable energy projects, virtually every generation plant was constructed, owned and operated by electric utilities to serve their native wholesale and retail customers. Since the generation siting act was passed in Kansas there have been substantial changes in the way electric generation facilities are financed, owned and operated and the business and investment opportunities available to electric utilities. Starting in the 1980s many generation plants have been built by Independent Power Producers (or IPPs) that were not affiliated with the utility that purchased their power. However, until the last few years, the majority of these IPPs were financed by long-term purchase power contracts with regulated electric utilities. Recently (in the last three to four years) there has been an

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ATTACHMENT 5

increasing amount of new electric generation facilities built by independent power producers that fall into the category commonly referred to as "merchant plants." Merchant power plants are generation facilities that are financed, constructed and operated by nonutilities without long-term contract obligations. Because merchant plants can be built anywhere, and do not represent a long-term contractual obligation to the electric utility or its ratepayers, the Commission has proposed HB 2057 which would exempt these plants from the electric generation facilities siting act.

While the ownership and financing of generation plants has evolved since the siting act was first enacted, there have also been changes in investment and financial opportunities for electric utilities. In the late 1970s most electric utilities were focused on the utility business. The primary way an electric utility expanded its investments and shareholder opportunities was to invest in generation facilities. The addition of air conditioning to the residential and commercial load, as well as increasing industrial automation, caused electric demand to increase rapidly. As a result, generating plants were often needed as soon as they were built. Additionally, until the mid 1970s, technology advancements in power plant efficiencies often meant that a new power plant, even when added to the electric utility's ratebase, saved enough fuel and operating expenses that electric rates were decreasing in real terms. This was the best of all worlds. By adding the new power plant the utility expanded its ratebase and lowered its expenses, often allowing decreases in electric rates with a corresponding increase in the amount of shareholder investment opportunities. The ratepayer benefitted and the utility benefitted.

Today, of course there are quite different investment incentives for the utilities. Environmental and safety regulations, as well as high interest rates and decreasing technological improvements meant that new power plants constructed in the late 1970s and early 1980s were far more expensive to build and operate than anticipated. Increases in electric demand had leveled off to growth rates that were more reflective of the general economy. Utility regulators often denied or limited the electric utility's return on, and return of, their investment in new expensive power plants. Addition of these new facilities to electric rates often resulted in dramatic and unpopular rate increases. Building generation was no longer seen as a sure bet for a utility's shareholders or to the benefit of their ratepayers.

Since this period in time the typical electric utility has become diversified and may invest in a variety of unregulated enterprises. Additionally, increasing wholesale competition and the perception of impending retail competition has created a great deal of uncertainty. There is no longer an incentive for electric utilities to invest in expensive generating plants for ratebase purposes, and in fact many utilities may consider this type of investment as risky as investment in their nonregulated subsidiaries.