Approved: April 27, 2000 Carl D. Holmes
Date

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 12:22 p.m. on March 30, 2000 in Room 231-N of the Capitol.

All members were present except: Rep. Tom Klein

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

Conferees appearing before the committee: Bruce Graham, Kansas Electric Power Cooperatives
Steve Kearney, Petroleum Marketers and Convenience Store Association of Kansas
Bob Krehbiel, Kansas Independent Oil and Gas Assn.

Others attending: See Attached Guest List

HR 6018 - Requesting the corporation commission to study energy and energy policy.

Bruce Graham, Vice President Kansas Electric Power Cooperatives addressed the committee on **HR 6018** (Attachment 1). Mr. Graham explained that this resolution addressed too many issues, that there was no allowance for funding of consultants or citizen travel reimbursements and that there should be additional members of the task force. He stated that they felt the Corporation Commission already had the authority to do this and could develop an energy policy without formally convening a task force.

Steve Kearney, Petroleum Marketers and Convenience Store Association of Kansas, spoke to the resolution. He requested additional members that would have knowledge of the gasoline distribution and retail business.

Bob Krehbiel, Kansas Independent Oil and Gas Association, spoke to the resolution. He explained that Senator Pat Roberts has an advisory committee on science and technology. This committee will be issuing a report to the Senator that addresses legislation and development, at the federal level, of a national energy policy. Mr. Krehbiel stated he felt that we should develop a policy for Kansas' natural resources that benefit the people of Kansas.

The conferees responded to questions from Rep. Long, Rep. Vining, Rep. Myers and Rep. McClure.

Chairman Holmes closed the hearing on **HR 6018** and opened the floor for debate.

Rep. McClure distributed copies of a New York Times article (Attachment 2) titled "Waiting for Oil Costs' Other Shoe".

Rep. McClure moved to amend the list of members to include gasoline retailers and distributors and electric co-op generators and transporters. Rep. O'Brien seconded the motion. Motion carried. Rep. McClure moved to recommend **HR 6018**, as amended, favorable for adoption. Rep. Sloan seconded the motion. Motion carried. Rep. McClure will carry the Resolution.

Rep. Long moved to approve the minutes from March 13, March 14, March 16, March 17, March 21 and March 22. Rep. Loyd seconded the motion. Motion carried.

Meeting adjourned at 12:57 p.m.

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: MARCH 30, 2000

NAME	REPRESENTING
JC Long	UtiliCorp United Inc.
Joe Dick	BPUKCK
[illegible]	Panhandle, Duke, Kinder Morgan
DICK CARTER	ENRON/NNG
STEVE KEARNEY	PMCA
Cynthia Smith	KCPL
TOM DAY	KCC
BRUCE GRAHAM	KEPCo
Ken Peterson	KS Petroleum Council
Whitney Damron	KS Gas Service/ONEOK
Sandy Braden	Williams, Coastal, McGill Gaches & Assoc
KAREN FRANCE	Ks. ASSN. OF REALTORS
Erik Sartorius	Johnson Co. Board of Realtors
Larrie Ann Lower	KS Govt Consulting
Chris Wilson	KS Gov'tal Consulting
Jon Miles	KEC
Ron Gaches	[illegible]
Amy Campbell	
Dave Holthaus	WRI
Martha Neu Smith	

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: March 30, 2000

NAME	REPRESENTING
Ed Schaub	WRC
Bob Krehbiel	KIOGA
Julie Hein	

House Resolution No. 6018

Comments by Kansas Electric Power Cooperative (KEPCo)

- Creates a 17-member task force to create a state energy policy and submit a report to the Legislature by January 8, 2001.

- Too many issues...everything from petroleum price impact on the Kansas economy to a forecast of energy production prospects through 2010.

- Many of these topics such as a report on the impediments to construction of electric generation and transmission facilities have been discussed at length and solutions identified.

- Since no legislators or policy makers are on the task force, the final report is open to criticism that it is a biased product and certainly will take much effort to introduce the subject matter and recommendations to key legislators.

- There is no allowance for funding of consultants to do research or to pay citizen travel cost for participating.

- It is presumed, but it is not precisely clear that the KCC makes the appointments. If the KCC staffs the meetings, prepares minutes, reports, meeting notices, etc., the regulated utilities would get billed for that work as part of the KCC fee structure and non-jurisdictional task force participants won't bear any cost responsibility.

- Natural gas producers have a representative and natural gas pipelines (distributors) have another seat. Yet electric cooperatives have only one seat but are similarly divided. *There are cooperative electric generators (KEPCo for example), and cooperative distributors (the 30 individual rural electric cooperatives). Electric generators and distributors have just as diverse interests as natural gas producers and pipelines. If this resolution is approved, it should be amended to include a cooperative generation and transmission utility.*

- There are at least three investor-owned utilities in the state but only one IOU seat.

- Along that same line, if we are studying gasoline prices, shouldn't both the gasoline producers and distributors be represented?

- A coordinated energy policy can be developed by the Kansas Corporation Commission through their own initiative and in consultation with industry groups on each individual topic, rather than lock these 17 diverse groups in a room together for a dozen or so meetings to develop policy on subjects that they have no expertise. HR 6018 could be reduced simply to call on the KCC to develop a state energy policy without the need to convene a formal a possibly unmanageable task force.

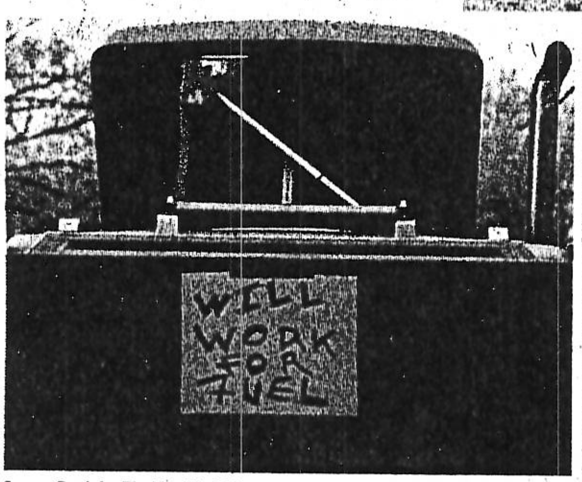
HOUSE UTILITIES

DATE: 3-20-00

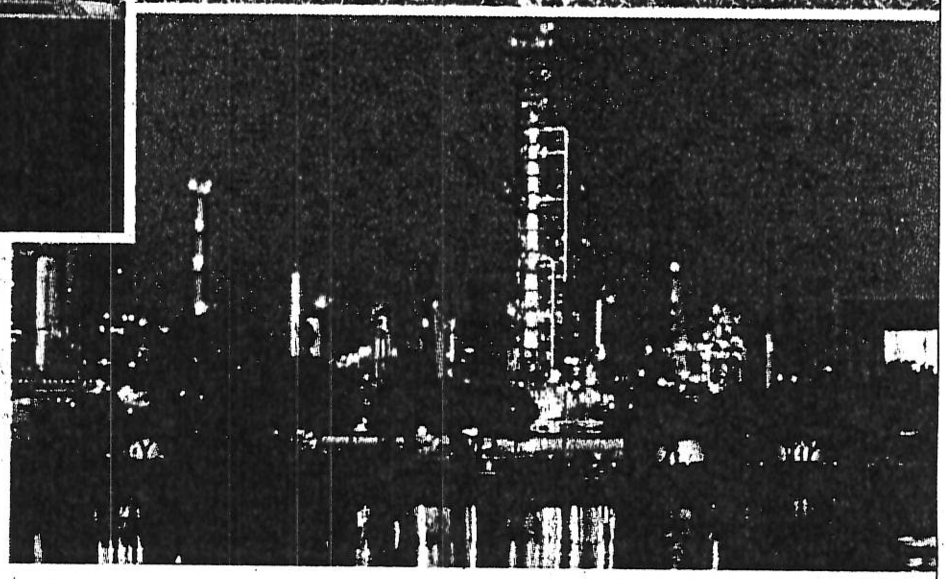
ATTACHMENT 1

Waiting for Oil Costs' Other Shoe

Many companies have not passed their higher costs on to customers, but that could change



Susana Raab for The New York Times

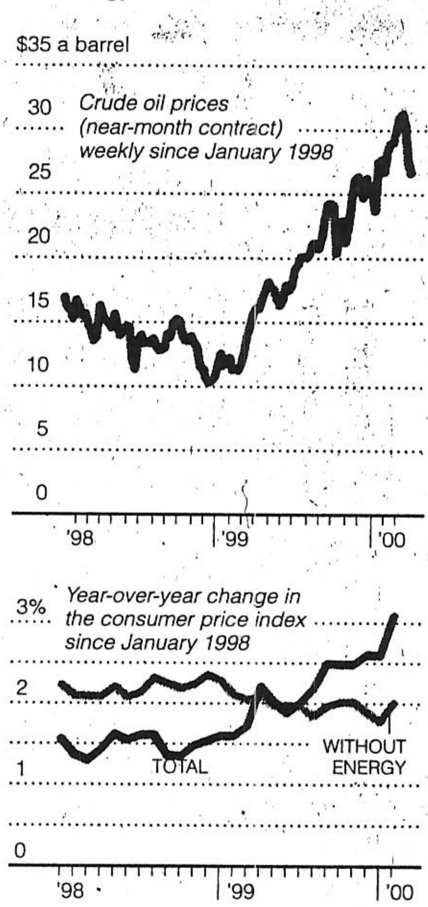


Mark Graham for The New York Times (top); Associated Press

Donald Patman, top, a Texas cotton farmer, is paying 40 cents more a gallon for fuel this year, but cannot pass along the increase. Truckers, left, protested high prices in Washington. Above, the Mobil oil refinery in Joliet, Ill.

Fueling Inflation?

Since the beginning of 1998, oil prices have swung wildly but so far the downs-and-ups have not had a major effect on the pace of inflation outside the energy sector.



Sources: Bloomberg Financial Markets; RFA Dismal Sciences

The New York Times

By RICHARD A. OPPEL Jr.

DALLAS, March 28 — Donald Patman, a Texas farmer, is paying 40 cents a gallon more this year to fuel his diesel combines and tractors, adding as much as $240 a day to his costs during cotton-picking season. Soon he expects increases in the costs of pesticides and fertilizers to dent his budget even more. Pass the increases on to his customers? Forget it.

Officials at the **H. B. Fuller** Company, the St. Paul-based adhesives maker that sells mainly to other businesses, however, see some relief where Mr. Patman does not: they are raising prices 5 percent or more on many of their products to offset raw materials costs that have grown mainly because of higher petroleum prices.

And while the **Centex** Corporation, the Dallas builder, has watched suppliers raise prices as much as 5 percent for some petroleum-derived products, including carpets, Centex is not feeling the pain. It has purchase contracts that locked in lower prices for 6 to 12 months. After that, however, if oil prices remain high, the contract prices will probably rise also.

Though surging fuel prices and rising costs for chemicals, plastics, resins and other products have driven up expenses for many businesses, not all industries or companies have been affected equally.

And those that have suffered have not, by and large, passed along the higher costs; in part because global competition and a relatively strong dol-

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OPEC TO INCREASE OIL PRODUCTION

OPEC has agreed to raise oil production by 1.452 million barrels a day, but Iran refuses to take part. Page A1.

HOUSE UTILITIES

DATE: 3-30-00

ATTACHMENT 2

Other Shoe of Oil Costs Could Drop in the Form of Higher Consumer Prices

2-2

Continued From First Business Page

lar have made it unwise to raise prices.

Even inflation hawks, including Alan Greenspan, the Federal Reserve chairman, have noted that consumers have generally been spared, outside of direct expenses for gasoline and home heating oil. On Monday, Mr. Greenspan told a Senate panel that, so far, there was no significant evidence that higher energy costs were "in the process of embedding themselves in other areas of the economy and inflating the general price structure." And that is unlikely to occur, he added, if oil stays around the mid-$20-a-barrel level.

Yesterday, a majority of the members of OPEC agreed to reverse production cuts they made last year. Oil prices fell sharply earlier in the day, to about $27 a barrel, as traders anticipated the cartel would raise output. Still, oil is nearly twice as expensive as a year ago.

Many businesses have been able to cut other costs or increase productivity to offset the higher materials prices. But many others are swallowing the difference, at least for now: higher prices have already contributed to earnings disappointments at several companies, including Fuller and Procter & Gamble.

Within industries, too, oil prices have hit companies in sharply different ways. It is no surprise, for example, that the rise in fuel prices has stung the airlines, so, many have raised their ticket prices by about $20.

Five of the larger United States air carriers are expected to report either losses or very small profits for the first quarter, in large part because of the rise in jet fuel prices.

But some airlines are hurting more than others: **US Airways** Group, which had no hedges in place at year-end to protect against high fuel costs, experienced a 52 percent spike in its average price for a gallon of fuel from a year earlier. That contributed to a fourth-quarter loss.

In contrast, **Delta Air Lines** stunned analysts in January by reporting earnings per share that were 12 cents higher than expected, largely because of fuel hedging. For the quarter that ended in December, Delta's average cost rose just 6 percent and the airline reported a gain of $99 million on fuel-hedging contracts. Delta has three-quarters of its fuel requirements hedged for the rest of this fiscal year, which ends June 30, and 55 percent for next fiscal year.

Another industry hard hit by rising oil costs is freight transportation. Federal Express and others have responded by tacking on fuel surcharges to their rates.

But even that tactic does not guarantee earnings' protection. At **J. B. Hunt** Transport Services, a big trucking firm based in Lowell, Ark., fourth-quarter earnings per share fell 14 cents below what they otherwise would have been, the company said, despite fuel surcharges it added to customers' bills.

According to the Fed's most recent "beige book" report on the economy, some truckers indicate they are hurt more than might be expected because competition from rail carriers hampers their ability to pass on higher costs. Various groups of truckers have protested in Washington.

The beige book also noted that in the Southwest, some refiners have been pinched because prices for oil, their raw material, have risen faster than prices they charge for the fuels they produce. And oil services concerns continue to be frustrated by the surprisingly tepid pace of new exploration and development, as producers use cash flow to pay down debt instead of increasing their efforts to find more oil.

Increases are only now being felt by some companies.

The big issue, if petroleum prices stay high, is whether manufacturers can continue to hold back prices, said David M. Jones, chief economist of Aubrey G. Lanston & Company, the New York bond dealer.

"Businesses are having extreme difficulty in this world of intense global competition making price increases stick, and it's pretty much across the board, so they have to suffer with higher costs," Mr. Jones said. Oil plays a far smaller role today in the overall economy than it did the last time prices soared, in the late 1970's. But if high prices persist, many businesses will face a profit squeeze or "will try once again to make prices stick" — spurring a reaction from the Fed if they succeed and inflation looms.

Indeed, Mr. Greenspan cautioned on Monday that crude oil "is still quite formidable." He added, "And there is no doubt in my mind that energy, which tends to cut across all aspects of this economy, if it gets sufficiently costly, could have materially negative effects."

Though that has not happened, many manufacturers are feeling squeezed. The National Association of Purchasing Management's price index rose again last month, to its highest reading in five years. That indicated that cost increases were still accelerating. Industries paying higher prices include clothing, electronic components and equipment, and rubber and plastic.

But manufacturers are mostly not charging more, because they feel they cannot.

Save for some notable exceptions, cost pressures have not torpedoed earnings yet. Edward M. Kerschner, PaineWebber's chief investment strategist, predicted on Monday that first-quarter earnings for companies in the Standard & Poor's 500-stock index would rise 15 percent from the period a year earlier.

Still, several recent surveys have found that manufacturing executives expect higher energy and related raw materials costs to crimp profits later this year.

Even though oil prices began rising a year ago, the increases are only now beginning to work their way down to some companies.

Some costs may not be felt soon for yet other reasons. For example, while the Labor Department reported that prices for electric power rose only slightly in the last year, the prices that electric utilities pay for natural gas rose by almost one-third. Natural gas-fired plants are the largest source of generation at many utilities, but increases in their rates often take months to get through commission rate hearings.

Ernie Goss, an economics professor at Creighton University in Omaha, said his monthly survey of 1,100 companies in nine Midwestern states found that only in the last month have many manufacturers begun to feel rising petroleum prices. "There were an unusually high number of manufacturers reporting that oil prices were really squeezing them," he said. "It was odd. We didn't see these comments till February."

A Dun & Bradstreet survey found that manufacturing executives believe that over the next three months rising materials costs will force either slimmer profits or higher prices for finished goods. David Kresge, Dun & Bradstreet's chief economist, said manufacturers reported only recently that they hoped to raise prices to offset higher costs. "Whether they are able to do that in the face of competition remains an open issue," Mr. Kresge said.

Temporary price increases can be swallowed by manufacturers, said Richard Edwards, director of investor relations at H. B. Fuller, whose stock dropped almost 20 percent earlier this month when it disclosed that first-quarter profits were likely to fall short of expectations. But, he added, "there's only so much that suppliers and manufacturers can absorb."

Mr. Patman, who farms about 6,000 acres near Waxahachie, Tex., about 30 miles south of Dallas, says the higher fuel prices have helped change his view of the business.

"For years, as you made less net profit per acre, you leased more land to maintain a certain income," he said. "But now, bigger is not better — you have too much at stake out there," because one bad year can wipe out a farmer's equity in his equipment.

It would be a lot better if farmers could pass on some of the higher costs, he said, but they do not have the power to do so. Between the higher prices and the drought across the South and in the Midwest, Mr. Patman said, "I'm sure a lot of producers won't be able to stay in business" after this year.

Higher petroleum costs will cut $3 billion, or about 6 percent, from farmers' net cash income this year, if oil prices average $28 a barrel, estimates Terry Francl, a senior economist at the American Farm Bureau Federation in Chicago. But that is only the half of it: once stockpiles of fertilizers and pesticides are depleted, replacements could cost $800 million more later this year, and $2 billion to $3 billion more next year, he said.

According to a model prepared by the Dallas branch of the Federal Reserve, it can take about nine months for the economy to feel a significant effect from higher oil prices, said Mine K. Yucel, head of the regional group of economists there.

But so far, competition has meant that businesses that cannot increase productivity or cut costs to offset higher prices "are suffering in terms of profits; they're eating it," Ms. Yucel said.

The New York Times

Business Day

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WEDNESDAY, MARCH 29, 2000