

Approved: March 13, 2002

Date

Carl Dean Holmes

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:07 a.m. on February 5, 2002 in Room 526-S of the Capitol.

All members were present except: Representative Gene O'Brien

Committee staff present: Robert Chapman, Legislative Research
Dennis Hodgins, Legislative Research
Mary Torrence, Revisor of Statutes
Jo Cook, Administrative Assistant

Conferees appearing before the committee: Jack Brier, Kansas Development Finance Authority
Kelly Harrison, Westar Energy
Tim Rush, Kansas City Power & Light

Others attending: See Attached List

HB 2635 - Kansas Development Finance Authority authorized to issue bonds to finance certain electric transmission lines and appurtenances

Chairman Holmes welcomed Jack Brier, President of the Kansas Development Finance Authority (KDFFA). Mr. Brier explained the background of KDFFA. They are charged with arranging for all the financing needs of the state. He also stated they have the authority to do private activity bonds, including industrial revenue bonds. Mr. Brier responded to questions from the committee.

Chairman Holmes then opened the hearing on **HB 2635**.

Kelly Harrison, Vice President of Regulatory Affairs for Westar Energy, appeared in support of **HB 2635** (Attachment 1). Mr. Harrison said that to have the ability to use KDFFA as a source of revenue bonds would be a helpful tool. Mr. Harrison asked the committee to also look at the return on equity for transmission lines authorized by the FCC when debating the bill.

Tim Rush, Director of Regulatory Affairs for Kansas City Power & Light, testified in support of **HB 2635** (Attachment 2). Mr. Rush stated that while this proposed legislation provides an alternative means of financing, it would not be the determining factor in the decision to build, but could serve to help mitigate the costs when facilities must be built.

Written testimony in support of **HB 2635** was provided by Steve Miller, Senior Manager of External Affairs for Sunflower Electric Power (Attachment 3) and Bruce Graham, Vice President of Member Services and External Affairs for Kansas Electric Power Cooperatives Inc. (Attachment 4). Additionally, an e-mail sent by Mr. Miller asking about substations was distributed (Attachment 5).

Mr. Harrison and Mr. Rush responded to questions from the committee. Also responding to questions was Tammy Dishman, Vice President of Marketing for KDFFA.

Chairman Holmes closed the hearing on **HB 2635**.

HB 2712 - KDFFA authorized to issue bonds to finance regional broadband technology facilities

Chairman Holmes opened the hearing on **HB 2712**. There were no conferees. Representative Sloan distributed comments proposing changes to the bill that had been provided by a member of the telecommunications industry (Attachment 6). Chairman Holmes closed the hearing on **HB 2712**.

Chairman Holmes announced that the committee would be working **HB 2635** either tomorrow or Thursday.

The meeting adjourned at 10:01.

The next meeting is scheduled for February 6, 2002.

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 5, 2002

NAME	REPRESENTING
Rob Hodges	KTIA
Tom Gables	GGBA
Bruce Graham	ICEPCo
Don & Miles	KEC
Jo Long	UCU
Carl Huslig	UCU
Cynthia Smith	KCP
Tom Plunk	KCP
Dan Holthaus	KEC
Jany Dohmer	KDEA
Mark Schieber	Westar Energy
Steve Johnson	Kansas Gas Service
KARLA OLSEN	WESTAR ENERGY
Mitt Bergmann	Pet Habit Assoc.
Kelly B. Harrison	Westar Energy
John Federico	KCTA
Mike Reelst	AT&T
Stuart Little	Westar Energy
Whitney Jamron	KS Gas Service
Bob Jayroz	Connect Kansas

HOUSE UTILITIES COMMITTEE GUEST LIST

DATE: February 5, 2002

NAME	REPRESENTING
D.S. Koch	S.W. Bell
Jim Garbner	" "



**Testimony before the
House Utilities Committee
By Kelly Harrison, Vice President, Regulatory Affairs
Westar Energy
February 5, 2002**

Chairman Holmes and members of the committee, I am Kelly Harrison, vice president, regulatory affairs for Westar Energy.

Westar Energy appreciates the committee's efforts to promote a positive business environment for utilities. We support House Bill 2635.

The transmission system is the backbone of our utility. An effective transmission system allows us to move large amounts of electricity between our plants and the cities in Kansas. Growth in the state will require upgrading our system and possibly building new transmission facilities. Uncertainty about how the new transmission facilities will be paid for and questions about the status of Regional Transmission Organizations (RTO) have a significant impact on whether new investments in these very expensive facilities can be made. The authorization of bonds to finance costs related to construction, purchase and installation of transmission facilities would benefit Westar Energy and its customers.

Having the ability to use the Kansas Development Finance Authority as a source of revenue bonds when it comes time to upgrade our transmission system will be a helpful tool. Access to these bonds will reduce some of the challenges that face such a major project. An even larger challenge is the ability to promptly recover the investment costs for large, expensive transmission projects. The structure for recovery of these costs also should be reviewed.

Because in some cases improvements to the transmission system are required to remove congestion and improve the efficiency of the system, we believe this legislation should make clear that upgrading existing facilities as well as improvements to substations and switch yards are eligible under the provisions of this bill.

As you consider ways to remove barriers to investments or create incentives for these investments, we suggest that you look at the return on equity authorized. Language similar to KSA 66-117(d) could be used. KSA 66-117(d) allows a utility to request and the Kansas Corporation Commission to grant an additional return on equity (from 0.5 percent to 2 percent additional ROE) on investments by a utility to encourage conservation.

Westar Energy appreciates the actions of this committee as we work together in finding ways to provide safe, reliable electricity to Kansans. House Bill 2635 is a step in the right direction and has the support of Westar Energy.

**Testimony before the House Utilities Committee
In Support of House Bill No. 2635**

**Tim Rush
Director Regulatory Affairs
Kansas City Power & Light Company
February 5, 2002**

Chairman Holmes and Members of the Committee:

I am Tim Rush, Director of Regulatory Affairs for Kansas City Power & Light Company and am appearing before you today in support of House Bill No. 2635 relating to financing of transmission lines.

KCPL would like to thank this Committee for recognizing the need to ease the building of new transmission. This bill may provide an alternative means of financing expansion of the transmission network at rates lower than KCPL can obtain through traditional means. This lower cost of financing can then be reflected in the costs to serve Kansas customers.

The need to encourage additional transmission facilities is now being recognized in other parts of the country, but little has been done to address it. FERC has recognized this need as well, but to date has failed to approve any significant incentives. As the industry moves closer to operation under the control of Regional Transmission Organizations (RTOs), most new incentives must come from the federal level since FERC will likely be responsible for establishing transmission rates. While the bulk of any incentive to expand the transmission network must come from the federal level, Kansas can still provide support through measures such as HB 2635.

While this bill provides an alternative means of financing transmission projects, it will not be the determining factor in the decision to build. KCPL has an ongoing obligation to serve and will continue to build transmission to serve our retail and firm wholesale customers. Although this bill doesn't drive the decision to build transmission, it will serve to help mitigate the cost when facilities must be built. The lower cost may result in building facilities earlier due to a more favorable comparison between the cost of building versus paying congestion charges.

We ask that this committee move this bill forward.

Thank you for your time. I would be happy to answer any questions that you have.

HOUSE UTILITIES

DATE: 2-5-02
ATTACHMENT 2

**TESTIMONY SUBMITTED
TO HOUSE UTILITIES COMMITTEE**

**By
Steve Miller, Senior Manager, External Affairs
SUNFLOWER ELECTRIC POWER CORPORATION**

January 29, 2002

Sunflower supports the provisions of HB 2635. We have testified on several occasions about our concerns regarding the Kansas transmission system especially regarding the congestion that at times causes us difficulty supplying the power requirements of our member systems.

As you know, we are in the process of developing a new coal-fired generating station at our Holcomb site. That project will require us to make transmission system improvements and add more miles of line to our existing system. At this point in the project, we are not certain what improvements will be required, but we do know that those improvements will be expensive and they will bring about benefits to most of the utilities in the region.

We also don't know what the cost of financing would be through KDFA and we are not certain how FERC actions may help or hinder plans for new system improvements, but we do think it is prudent for the authority to be granted to KDFA so that utilities may have another tool to use that helps provide the opportunity for improvement in the quality of electric service to the Kansas residents.

We urge you to give favorable consideration to HB 2635.

Sunflower provides wholesale electric power to six rural electric cooperatives that serve 120,000 people through 50,000 meters in 34 western Kansas counties.

HOUSE UTILITIES

DATE: 2-5-02

ATTACHMENT 3



Kansas Electric Power Cooperative, Inc.

Testimony on House Bill 2635 House Utilities Committee January 30, 2002

*Bruce Graham, Vice President of Member Services and External Affairs
Kansas Electric Power Cooperative, Inc. (KEPCo)*

KEPCo supports the provisions of HB 2635. Transmission constraints are a significant concern across the nation. In Kansas, one of the reasons many of the new generation projects are small is in recognition of these transmission constraints. Small projects allow utilities to target growing demand in a region without the need to make significant upgrades to the current transmission system.

Eventually, these ideal generation sites will be exhausted and transmission system upgrades will be necessary. Transmission work is expensive and can be time consuming. The 2000 Legislature recognized and relaxed the restrictions on siting for certain transmission construction and upgrades. HB 2635 would provide an option for transmission construction and upgrades to be completed more economically through KDFA authority.

KEPCo is a generation and transmission utility that provides wholesale electricity and other services to 19 member rural distribution cooperatives. Our member electric cooperatives blanket two-thirds of rural Kansas and serve 100,000 meters or approximately a quarter million Kansans.

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HOUSE UTILITIES

DATE: 2-5-02

ATTACHMENT 4

From: "Miller, Steve" <smiller@sunflower.net>
To: "Carl D. Holmes 125 (E-mail)" <holmes@house.state.ks.us>
Date: Mon, Feb 4, 2002 10:18 AM
Subject: House Bill 2635

Carl, I left word about my concern about 2635 with Jo last Friday, but thought I would let you know that I have looked into the issue of whether or not substation equipment would be included in the current bill. All of the people I've talked to believe that substation would not be covered in the bill in its current form.

As my testimony said, I'm not certain whether we will be able to utilize this type of financing or not, but it certainly seems to me that substations should be included no matter who might entertain the idea of using KDFA to finance a transmission line project. Even though 115 kV lines cost about \$100,000 per mile, a minimal sub will cost \$1 million and if it contains two breakers, my transmission people say that they cost will increase to \$1.5 million.

Please call if I can provide more information.

Steve Miller
smiller@sunflower.net
Sunflower Electric Power Corporation
P.O. Box 980, Hays, KS 67601
(785) 623-3364 ~ FAX (785) 623-3367

HOUSE UTILITIES

DATE: 2-5-02

ATTACHMENT 5

1. [line 15, page 4]
“The authority is hereby authorized and empowered to...” should be changed to **“The authority may...”** to agree with the rest of KSA 74-8905 [See lines 15 and 43 on page 1, lines 15 and 35 on page 2, and lines 19, 31 and 43 on page 3 of the bill.]
2. [line 16, page 4]
“regional” should be more narrowly defined to mean a small geographic area – not an entire area code or a geographic area of reference such as southwest Kansas.
3. [line 17, page 4]
“in cooperation with” does not appear anywhere else in KSA 74-8905 and could be removed or replaced with something similar to the concept included in lines 20-22 on page 3 of the bill: **“in connection with a redevelopment plan that is approved by the authority in accordance with...”**.
4. [line 17, page 4]
“political subdivision” is too broad. This term would permit the smallest governmental units in Kansas to get involved with broadband technology facilities projects. The entities covered in the bill should be no smaller than small cities – perhaps defined by population size.
5. [line 18, page 4]
“in partnership with the private sector” should be made to refer to a specific project that resulted from a RFP and bid process. [See the text from lines 20-22 on page 3, item 3 above for a similar concept.] This would allow for multiple proposals from potential service providers during the bid process, but should help eliminate projects that duplicate other projects or would provide funding for an “overbuild” of an existing network. [Unless that is the intent.]

HOUSE UTILITIES

DATE: 2-5-02

ATTACHMENT 6