

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The joint meeting of the House and Senate Utilities Committees was called to order by Chairman Senator Stan Clark at 9:30 a.m. on January 24, 2002 in Room 526-S of the Capitol.

All members were present except: Senator Lyon (excused)

Committee staff present: Raney Gilliland, Legislative Research
Emalene Correll, Legislative Research
Ann McMorris, Secretary

Conferees appearing before the committee:
Bruce Graham, KEPCo
Joe Dick, Kansas City Board of Public Utilities
Colin Hansen, Kansas City Board of Public Utilities
Gary Stone, UtiliCorp
Earl Watkins, Sunflower
Dick Dixon, Western Resources/Westar Energy
Chris Giles, Great Plains Energy
Jim Widener, Kansas Municipal Energy Agency

Others attending: See attached list on House Utilities Committee minutes of same date

Status of the Electric Industry

Presentations were made by:

Bruce Graham, KEPCo (Attachment 1)
Joe Dick, Kansas City Board of Public Utilities (Attachment 2)
Colin Hansen, Kansas City Board of Public Utilities (Attachment 3)
Gary Stone, UtiliCorp (Attachment 4)
Earl Watkins, Sunflower (Attachment 5)
Dick Dixon, Western Resources/Westar Energy (Attachment 6)
Chris Giles, Great Plains Energy (Attachment 7)
Jim Widener, Kansas Municipal Energy Agency (Attachment 8)

Written testimony was provided by Midwest Energy, Inc. (Attachment 9)

The chair opened for questions. The committee questioned the presenters on sites of new turbines, hydro-power source, debt restructuring process, RTO membership and much more.

The next meeting of the joint committees will be on Monday, January 28, 2002.

Adjournment.

Respectfully submitted,

Ann McMorris, Secretary

Attachments - 9



Kansas Electric Power Cooperative, Inc.

Testimony Before House Utilities Committee and Senate Utilities Committee January 24, 2002

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

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.

What's New

- If you have a good memory, you might recall that for many years we have introduced KEPCo as the wholesale power provider to 21 rural electric cooperatives in Kansas. As of January 1, our membership dropped to 19 cooperatives, not because we lost two members but because of a customer approved consolidation of Jewell-Mitchell REC, Smoky Hill REC, and NCK REC--now known as Rolling Hills Electric Cooperative, Inc.
- KEPCo filed in June 2001 for a \$6.5 million rate increase and we received the KCC's decision on January 16. I have included a fact sheet on the results of the case.
- We would like to thank the Legislature and especially the House Utilities Committee and Senate Utilities Committee for their work to streamline the process for construction of electric generation and reduce the cost for new facilities. KEPCo is building a 20 MW generating project in Coffey County, near the Wolf Creek Generating Station. Most of the necessary permits have been secured and ground was broken in early January for the facility. Expected completion date is June, 2002. KEPCo has secured and is siting ten 2 MW state-of-the-art Caterpillar diesel units. We are also doing some transmission upgrades and substation improvements. A fact sheet on the project is also included with this testimony.
- To take advantage of an evolving wholesale power supply market, KEPCo recently completed installation of a state-of-the-art Energy Management and Supervisory Control and Data Acquisition (EMS/SCADA) system. KEPCo installed almost 300 Remote Terminal Units (RTU) at substations across Kansas as well as remote operator consoles at each of our member cooperative

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headquarters. The EMS/SCADA system constantly monitors the metered flows of electricity to provide real-time power quality information and the actual demand of our member cooperatives. The system also provides a common platform upon which KEPCo's members can expand automated monitoring and controls of their distribution and load management systems. It has been an ambitious project but an investment that is a necessary and positive step in today's changing world of power supply in order to more closely and efficiently match demand with future energy supplies.

Generation Resources

- Presently, KEPCo's only owned and operating capacity is six percent of Wolf Creek which supplies close to 40 percent of KEPCo's energy needs.
- KEPCo receives approximately 20 percent of its energy from hydroelectric power resources of the Southwestern Power Administration and the Western Area Power Administration.
- The remaining 40 percent of KEPCo's energy needs have been supplied through contracts with Western Resources, WestPlains Energy, Kansas City Power and Light, Sunflower Electric Power Corporation and Empire District Electric and are supplied from their generation mix of mostly coal and natural gas.
- These contracts have staggered expiration dates and are constantly under evaluation. For example, KEPCo is in the process of reviewing bids for replacement of a power supply contract that expires in 2003.
- As indicated above, KEPCo has begun construction of a 20 MW generating project in Coffey County, near the Wolf Creek Generating Station. The ten 2 MW diesel units will provide immediate generation for our members and will be particularly useful in times of high demand, outages from other power supply resources, and other times when most economical.
- We are also optimistic that new generation in the region, by KEPCo, other utilities, and/or independent power producers, will provide additional power supply flexibility in the future.



Kansas Electric Power Cooperative, Inc.

Communication Points Regarding KEPCo Rate Case Final Order

- The Kansas Corporation Commission has issued an order approving a new rate design for KEPCo which will include an Energy Cost Adjustment (ECA) and permit KEPCo to increase wholesale rates to its members by approximately \$6.5 million.
- "Certainly, KEPCo would have preferred not to have had to raise wholesale electric rates to our member cooperatives. However, this adjustment was necessary in order to provide some financial stability for KEPCo. We appreciate the fact that the KCC conducted a very thorough and independent review of our request and has validated the need for these changes," said Stephen E. Parr, KEPCo Executive Vice President and CEO.
- KEPCo provides wholesale electricity and transmission service to 19 electric cooperatives in Kansas. While KEPCo has developed a balance of generation resources that insulated its members from much of the recent market price turmoil, it has not been immune from that volatility. Through the course of the past two years, rising prices for natural gas used by some of KEPCo's power providers and lower than average hydroelectric generation were a double whammy, costing KEPCo about \$9 million more than its power supply budget. Over the short term, KEPCo was able to absorb the power cost increase but the result was deteriorating cash reserves for the non-profit generation and transmission cooperative. Therefore, KEPCo filed in June 2001 for permission from the KCC to increase revenue and implement some rate design flexibility.
- KEPCo has served the wholesale power requirements of its member cooperatives for approximately 20 years. As new and replacement power supply resources are required in the near future, KEPCo will need to demonstrate financial strength in order to take advantage of market opportunities and/or construct the necessary generation facilities to meet the power supply needs of its member cooperatives.
- The final order follows the terms of a Stipulation and Agreement between KEPCo and the KCC Staff. KEPCo originally filed for a \$6.5 million rate increase. Upon completion of its audit and review of the request, the KCC Staff made several significant adjustments to KEPCo's filing, most notably to require that KEPCo change its depreciation method and, for accounting purposes, extend the life of the Wolf Creek Nuclear Generating Station from 30 to 60 years. The Wolf Creek matter appeared to enable the KCC to be consistent with its decision in the recent Western Resources rate case regarding the life of Wolf Creek. KEPCo, Western Resources and Kansas City Power and Light are co-owners of Wolf Creek. The KCC Staff's revenue requirement was very similar to the KEPCo request, but the consequence of

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the Staff's findings on Wolf Creek would have raised rates further in order to accomplish the depreciation and accounting changes. While KEPCo Staff understood these changes, the impact on ratepayers was more than expected and an alternative solution was developed in the Stipulation and Agreement. That Stipulation and Agreement, approved by the three KCC Commissioners on January 16, balances the KCC Staff recommendations regarding Wolf Creek, meets KEPCo's revenue requirements, and is in line with the original rate increase request.

- The rate increase should take effect on February 1, 2002. While this will mean higher costs for KEPCo member cooperatives, many will take some time to evaluate the impact and when/if there will be a need for a rate increase to co-op customers. We expect, at the very least, that the RECs will implement a retail Energy Cost Adjustment in order to permit the recovery of fuel price volatility experienced by KEPCo.
- An Energy Cost Adjustment (ECA) is common in the utility industry. KEPCo and most of its members had an ECA in place for many years, but these provisions were dropped after fuel prices stabilized and when long-term contracts for fuel and generation were readily available. The market today shuns long term commitments, preferring the risk or reward and, unfortunately, the volatility of the short-term market.
- Without the ECA and because KCC regulation restricts the ability to quickly adjust rates, KEPCo has paid its higher power cost bills by depleting its cash reserves. These circumstances meant that cooperative members benefited from a below cost rate from KEPCo over the past two years.
- In addition, the rate increase that was approved by the KCC is still below KEPCo's average rate in effect in 1998, prior to a voluntary 10 percent wholesale rate reduction.
- "We are very aware and concerned about the struggling economy in Kansas and if it had been up to me, we would have preferred to avoid a rate increase. However, KEPCo has actually had a negative margin over the past two years and we must return to a positive financial position in order to meet our mortgage requirements. This decision by the KCC balances many interests and issues and we look forward to providing continued service as a member-owned, member-controlled power supplier in the future," Mr. Parr said.

Generation Project For KEPCo Members

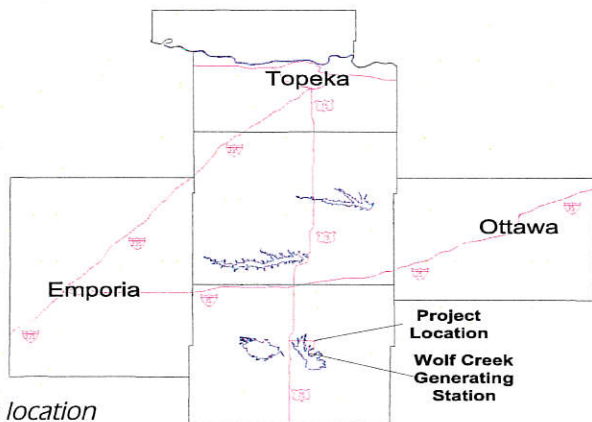
This new generation project is designed to supply KEPCo members with generation in times of high demand, back-up during times of generation outages, and when economical.

Broke Ground in January, 2002
Expected Date of Service June, 2002

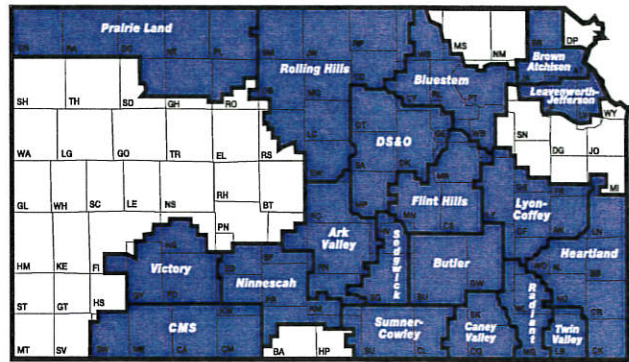
KEPCo is serving as General Contractor and Engineer.

10 Separate 2MW Diesel generating units, manufactured by Caterpillar, Inc. State-of-the-art, low-emission units.

The generating units will produce enough electricity to supply 4,000 households, when used at full capacity.



Site location



KEPCo provides wholesale generation, transmission and other services to 19 member rural electric cooperatives in Kansas.



Photo of Caterpillar generating units.

Added benefit -- KEPCo owns six percent of the Wolf Creek Generating Station. The proximity of the project to Wolf Creek will provide benefits for the plant as a partial back-up emergency power supply. Wolf Creek has two redundant diesel generators on site to power essential operations during an emergency. However, the generators require regular maintenance which, by NRC rules, must be completed within 72 hours or force temporary shutdown of the plant. Therefore, rather than run the risk of an expensive forced outage, maintenance of the generators is often performed as part of the refueling outage. With the new generation project, the plant can now schedule this work at other times which should reduce operations and maintenance costs.



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Board of Public Utilities

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E. Leon Daggett
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Donald Grey
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UTILITY SERVICES AND DEVELOPMENT DEPARTMENT

George A. Powell
Director—Marketing and Development
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Visit our Web site at: www.bpu.com



Please direct questions regarding billing estimates, relocation, site evaluation, etc., to BPU's Utility Services and Development Department.

WHY YOU SHOULD LOCATE YOUR BUSINESS IN KANSAS CITY, KANSAS

The benefits of choosing Kansas City, Kansas, for your commercial/industrial location are numerous. You'll enjoy the convenience of a central location and have access to a plentiful labor pool. In addition, you'll have BPU behind you, helping to reduce your utility operating expenses and make your business more profitable. Take a look at a few of the things BPU has to offer:

- Lowest rates in the Kansas City metropolitan area
- Economic development rate incentives
- Demand side management efficiency incentives
- Continuous operation since 1909
- Reliable (99.9%+) electric service
- No history of water shortage or rationing
- Electric and water rate stability
- Power from two coal-fired generating stations
- Computerized "dispatch" for extremely cost-effective power generation
- Generous processed water supply
- Central geographic location
- Central time zone
- Plentiful labor pool
- Strong work ethic
- Competitive labor rates
- Foreign trade zone
- Enterprise zone
- Voted an All-America City

INCENTIVES GIVE NEW BUSINESSES A HEAD START

BPU offers many economic development incentives to new or expanding companies. These incentives fall under several major categories:

ECONOMIC DEVELOPMENT INCENTIVE RATE RIDER

This electric incentive rate is designed for new or expanding businesses having kilowatt requirements of 500 kW or greater occurring in any one month of the year. This incentive rate offers a five-year, stair-stepped discount on the cost of electric service to the business. The term of this incentive is eight years.

ECONOMIC DEVELOPMENT FUND

This \$500,000 fund has been established to enable BPU to offer electric and water infrastructure improvements, incentive grants and economic assistance to businesses considering relocation to the area. The fund is also available for established businesses that improve or extend their utility services and are not receiving economic development rates. The incentive is unique to every business, depending on specific load characteristics. It is replenished yearly through the utility system's electric and water revenues.

ELECTRIC REVENUE FUND

Through this fund, BPU will participate with your commercial or industrial business in extending the electric system based on a formula of anticipated revenue applied against the cost of extending the electric service. A facility contract for substational electric service requirements may be required.

ENERGY EFFICIENCY INCENTIVES

When you construct energy-efficient buildings or retrofit existing buildings using electric heat (either heat pump or electric resistance as the central heating system), BPU offers you a per-ton heat pump capacity incentive or per-kW resistance heat incentive.

STREET LIGHTING

BPU will install basic street lights for your business at no charge based on applicable lighting design standards.

Certain conditions exist for the above funds. Applications or further information about any of these incentives may be obtained by contacting George A. Powell, Director—Marketing and Development, at (913) 573-9814 or Fax (913) 573-9852.

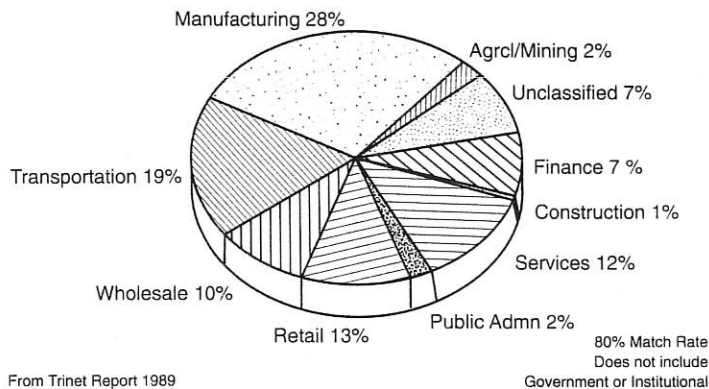
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BPU's electric system serves Kansas City, Kansas. The system, serving approximately 65,466 electric customers, has two coal-fired electric power generating stations. They include: (1) Nearman Creek and (2) Quindaro.

Refer to Exhibit A on page 10 of this booklet for a profile of the electric system.

ELECTRIC CUSTOMER PROFILE

By 2-Digit SIC Code



BPU PROVIDES RELIABLE ELECTRIC SERVICE

BPU's electric distribution reliability is made possible through a combination of generation and transmission efficiencies. The major contributing factors are:

- BPU maintains an effective transmission system.
- BPU's coal-fired generating stations operate with a high degree of efficiency.

MEMBERSHIP IN THE MoKAN POWER POOL HELPS BPU ACHIEVE THE LEAST COSTLY GENERATION FOR THE ENTIRE SYSTEM

BPU is a member of the MoKan Power Pool, a group of 11 interconnected utilities (investor-owned utilities, rural electric cooperatives and municipal utilities) which provide service in portions of Missouri and Kansas. Such membership enables participation in hourly economy energy transactions. These computerized energy transactions minimize load requirement costs through sequential use of generating units and purchased power, helping to achieve the least costly generation for the whole utility system.

MoKAN POOL MEMBERSHIP INCREASES RELIABILITY

MoKan Pool membership also enhances electric distribution reliability by providing contractual access to the interconnected transmission network of MoKan participants.

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MEMBERSHIP IN SOUTHWEST AND MOKAN POWER POOLS FACILITATES POWER TRANSFERS IN EMERGENCY SITUATIONS

BPU is also a member of the Southwest Power Pool. Membership in both the MoKan and Southwest Power Pools simplifies the transfer of power in emergencies. The pooling of generating resources reduces the minimum reserve capacity requirement of an individual system to 15 percent of its projected peak load.

ACCESS TO LOW-COST HYDRO POWER ENABLES BPU TO AVOID COSTLY LOCAL GENERATION DURING PEAK PERIODS

Contracts with MoKan Pool members allow access to low-cost hydro power during summer peak periods. Additional hydro power is available from several other sources to ensure an adequate supply of this low-cost power source.

ELECTRIC SYSTEM OPERATING COSTS

BPU offers some of the lowest electric rates within metropolitan Kansas City. For instance, should you have an electrical demand of 3,000 kW and 1,000,000 kWh per month, you would pay an average of only \$.051 per kWh, (April 1998, Rate 300, LGS), excluding taxes. If you are a new or expanding customer on our economic development rider, this cost drops to \$.030 per kWh for the first year of the rider's five-year incentive period.

In addition to low rates, BPU provides:

- **Stability**—Electric power rates in Kansas City, Kansas, are very stable. In fact, they are more stable here than in most areas of the United States. BPU's Least Cost Planning maintains a power reserve margin to ensure adequate power and stable rates.
- **Reliability**—Reliability of electric power is just as crucial as low rates and price stability in order for you to profitably operate your business. BPU's basic reliability index is 99.9%+, which means you can be assured you'll have the power you need when you need it.

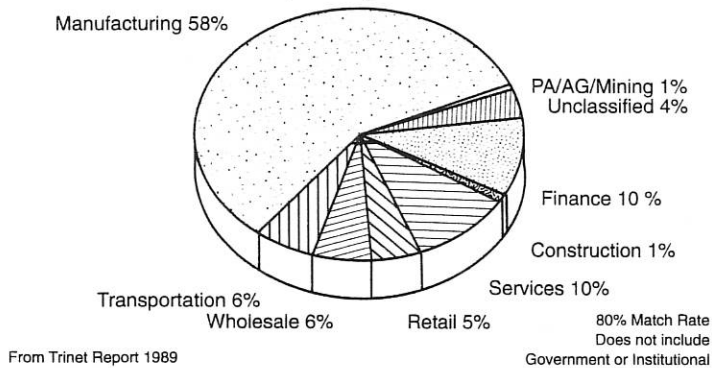
WATER SYSTEM OVERVIEW — Efficient Service, High Quality Water

Our mission is to provide our customers with good quality water and to do it in the most efficient manner possible.

BPU's water system serves the entire area of Kansas City, Kansas, as well as portions of suburban Wyandotte County, Leavenworth County and Johnson County. The service area includes approximately 52,161 water customers. Refer to Exhibit B on page 12 of this booklet for a profile of the water system.

WATER CUSTOMER PROFILE

By 2-Digit SIC Code



BPU's water system provides high quality and reliability. This is the result of many factors, including:

- Rigorous testing of the water at BPU's Quindaro Laboratory to ensure highest purity
- Ample supply available from the Missouri River
- Extensive distribution and storage network

BPU'S WATER PROCESSING FACILITIES HAVE A DAILY CAPACITY OF 45 MILLION GALLONS

Water processing facilities are located next to the Quindaro Power Station on the Missouri River at North 12th Street in Kansas City, Kansas. Raw water is obtained from the Missouri River through two intake structures and related equipment. Low-duty pumps deliver raw water to condensers at the electric generating station and then on to the water plant's settling basins.

The water is treated for sedimentation, coagulation, filtration and disinfection. The daily capacity of the water processing plant is 45 million gallons. High-service pumps at the plant deliver water to the transmission and distribution systems.

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THE TRANSMISSION NETWORK PROVIDES SUPERIOR DISTRIBUTION AND STORAGE

BPU's water distribution system consists of a network of underground mains and reservoirs, more than 56 miles of primary and trunk lines, an 847-mile system of secondary water mains and five booster pumping stations. An extensive system of reservoirs and overhead tanks have a storage capacity of more than 25 million gallons.

BPU'S QUINDARO TESTING LABORATORY ENSURES HIGHEST-QUALITY WATER

Chemists and technicians test the city's water supply at BPU's Quindaro site. This testing, conducted several times a day, is an important part of BPU's quality control efforts. The tests ensure that distributed water is well within rigorous safety standards set by federal and state regulations. To comply, collectors must obtain 50 samples each week which are tested for coliform bacteria. Two different sets of 600 sites are sampled multiple times on alternate years. In addition, a flushing program is performed to ensure good quality water in areas where there is minimal use.

WATER SYSTEM OPERATING COSTS

If your company demands a large, daily flow of good quality water, you're sure to find it in Kansas City, Kansas. With BPU, you can expect:

- **Low Cost**—The average cost for industrial users (those using 18,700,000 gallons a month) is \$1.39 per 100 cubic feet of water (as of April 1998). The only other charge you'll have is a small, one-time water connect fee. The fee level depends upon water system capabilities and the requirements of your given location.
- **Abundant Supply**—There is an abundant supply of water in Kansas City, Kansas. And, as a result, there's been *absolutely no history of water rationing*. System-wide water capacity is 45 million gallons per day (MGD). Average total consumption is 28 MGD.

ELECTRIC AND WATER GENERAL RATE INFORMATION

BPU offers a number of rate classifications. Therefore, accurate information about your type of business, size of electric load and type of heating (gas or electric) is needed to place you in the most advantageous rate possible. This information will be used to quote an electric and water rate based on your needs, consumption requirements and location. This information will be kept in strictest confidence. BPU's Utility Services and Development Department can also discuss options and energy planning with you.

RATING AGENCY CREDITS KANSAS CITY WITH FINANCIAL TURNAROUND SINCE '95

Fitch IBCA has praised the Board of Public Utilities in Kansas City, Kan., for a financial turnaround over the last three years.

"Since 1995, BPU's new management team, headed by General Manager Leon Daggett, has reduced staffing levels by more than 25%, eliminated unnecessary expenses, and lowered fuel costs by more than 10%," Fitch said in a July report.

In May, the rating agency upgraded \$222 million of BPU's outstanding utility system revenue bonds from A to A+. It also raised BPU's competitive indicator score to 2.45, which is better than the industry average of 2.69 and "a significant improvement" from its previous score of 2.80, Fitch said.

"BPU's financial turnaround, from an operating loss of more than \$9 million in 1995 to a \$9 million operating surplus in 1997, was a major credit factor contributing to the rating upgrade," Fitch said.

The July 9 report lists strengths and risks. Strengths include improved financial performance, low-cost generating resources, competitive electric retail rates and an experienced management team. GPU's average retail rate of 4.8 cents per kWh compares favorably to the regional average of 5.89 cents, Fitch said.

Risks include the local government's reliance on BPU transfers, modest sales growth and below-average wealth indicators in the service area.

Before determining the rating, an inspection team examines the utility's operations and finances. The upgrade shows a "vote of confidence" in BPU and, in the long term, can enable BPU to save money by qualifying for lower interest rates on debts.

The Fitch report "is excellent documentation of our progress," said Board President John G. Feedback. "While we've come a long way in two years, we will continue to improve our strengths and reduce our risks."

"BPU has been very participative in our need to expand. We've put in new transformers, expanded our service, and had to move power lines. It has required a lot of flexibility on both sides, but BPU came to the call on all of those occasions."

Brian Rooney

Asst. Plant Manager, GNB

"We are very pleased with our working relationship with BPU. They have offered us engineering support in the past through some of their partnerships with outside vendors, they've worked with us on our rates and the consistency and quality of service, and we're quite pleased with what they've done."

Bob Doyle

Plant Manager, Owens-Corning

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EXHIBIT A

PROFILE OF BOARD OF PUBLIC UTILITIES ELECTRIC POWER AND LIGHT SYSTEM

GENERAL INFORMATION: 1997

Utility Name:	Board of Public Utilities
Generator or Distributor of Power:	Generator
Type of Generator:	Mainly Coal
Percent of Energy by Fuel Type	Coal 98.1%
	Oil/Gas 1.9%
	Total 100.0%
Generating Capacity:	639.5 megawatts (2 plants included)

1997 ELECTRIC SYSTEM CHARACTERISTICS

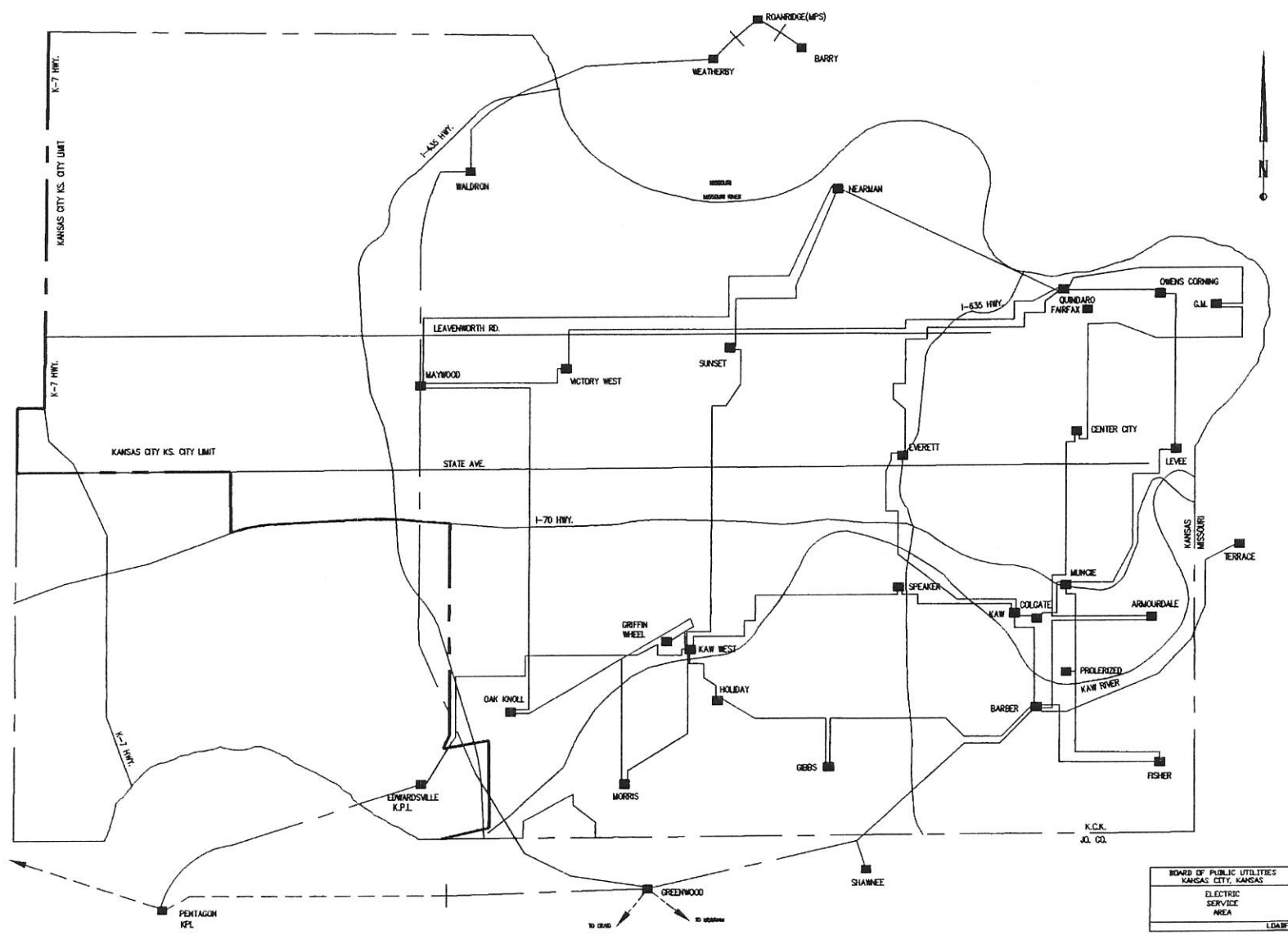
Area Served:	Approximately 127.5 square miles
Average System Net Demand Hour:	268,800 Kilowatts
Maximum System Net Hour:	479,000 Kilowatts (July 25 at 3:00 P.M.)
Historic Peak Load:	479,000 Kilowatts (July 25 at 3:00 P.M.)
System Net Load Factor:	56.1%

ELECTRIC PLANT LOCATIONS: 1998

<u>Locations:</u>	<u>Max. Net Cap. (kW)</u>
Nearman Creek Station 55th & Missouri River	235,000
Quindaro Power Station 12th & Missouri River	208,000
Combustion Turbines	108,000
Hydro Power	38,500
Purchased Power	50,000
Total System Capacity (kW)	639,500

BOARD OF PUBLIC UTILITIES ELECTRIC SERVICE AREA

BOARD OF PUBLIC UTILITIES, KANSAS CITY, KANSAS



BOARD OF PUBLIC UTILITIES

PROFILE AND DEVELOPMENT INCENTIVES

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EXHIBIT B

PROFILE OF BOARD OF PUBLIC UTILITIES WATER SYSTEM

GENERAL INFORMATION:

Utility Name: Board of Public Utilities
Source of Water: Missouri River on Kansas Bank at
12th Street and Missouri River

WATER PROCESSING

Treatment Plant: Quindaro Generating Facility
Treatment: Coagulation, Sedimentation, Filtration,
Purification
Capacity: 45 Million Gallons Per Day (MGD)
Historic Maximum Day: July 9, 1980/50.2 MGD

WATER DISTRIBUTION

Storage: 29 Million Gallons
Booster Pump Stations 5
Area Served: Approximately 141.5 Square Miles
Average Number of Customers: 51,800

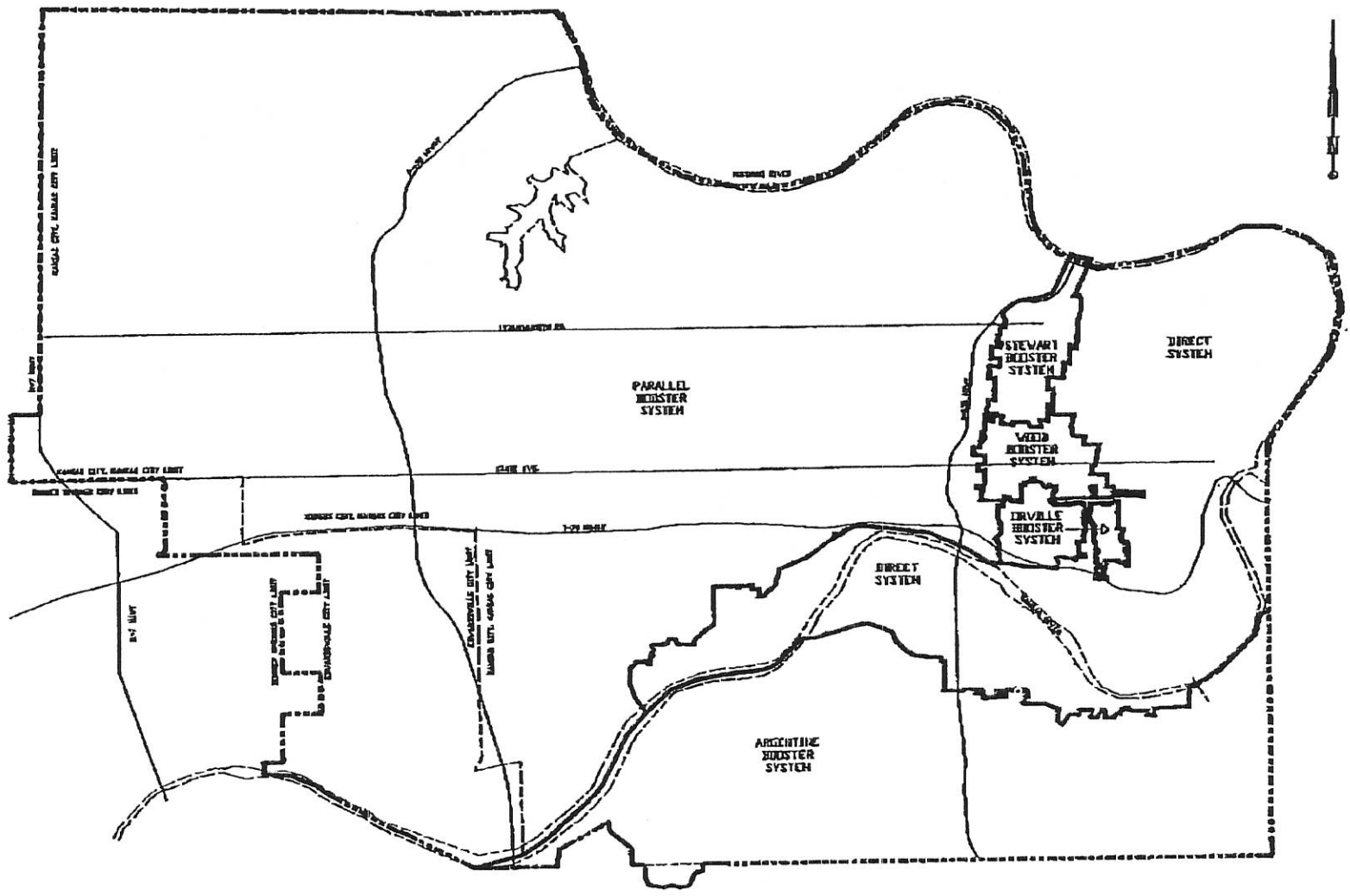
EXPANSION PLANS: A NEW 36-MILLION GALLON TREATMENT PLANT IS UNDER CONSTRUCTION TO BE COMPLETED BY THE END OF 1999.

TYPICAL MONTHLY WATER BILLS: APRIL 1998 (TAXES NOT INCLUDED)

Customer Size	Rate	Average Cost Per CCF	Total
224,400 gallons, 30,000 cubic feet or 300 CCF	In-City W010	\$2.39	\$718
18,700,000 gallons, 2,500,000 cubic feet or 24,998 CCF	In-City W010	\$1.39	\$34,784

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BOARD OF PUBLIC UTILITIES WATER SERVICE AREA



BOARD OF PUBLIC UTILITIES, KANSAS CITY, KANSAS

BUSINESS WITH COMPASSION: OUR OPERATING PHILOSOPHY

Our operating philosophy of “Business with Compassion” is a pledge we at the Board of Public Utilities take very seriously. The “Business” side is illustrated by the article you’ll find elsewhere in this newsletter about our Fitch bond rating upgrade. We’ve worked hard in the last few years to achieve this result on behalf of our customers.

Although energy and water service is our business, we know we don’t exist in a vacuum. We are intimately tied to the general health and welfare of our larger community. Therefore, the “Compassion” side of our pledge is illustrated by the work employees and their families provide in the community we serve. Members of our employee family serve on the Citizens’ Planning Committee and are active in Leadership 2000, United Way, the Red Cross and many other Wyandotte County charities.

We especially make it a point to help children in need. That’s because we hire local residents for entry level positions, and the kids of today are our workforce of tomorrow. Knowing the value of a healthy, well-educated employee pool, three BPU employees created an annual charity golf tournament to raise money for local childrens’ agencies. The \$44,000 they’ve raised so far has plugged service gaps at Turner House, Kaw Valley Center, Associated Youth Services and other local agencies.

If your company or organization wants to become involved locally but doesn’t know where to start, give me a call. I would love to connect you with real opportunities to make a difference, and we need your support to solve vital human needs.

E. Leon Daggett
General Manager



kansas municipal utilities

Testimony before the

Joint House and Senate Utilities Committees

January 24, 2002

Colin Hansen

Executive Director

Kansas Municipal Utilities

Status of the Electric Industry

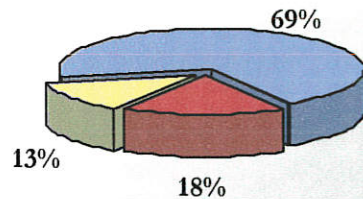
Kansas Municipal Utilities (KMU) is the statewide association representing the interests of 154 Kansas municipal electric, natural gas and water utilities. Founded in 1928, KMU member cities now provide utility services to over one million Kansans.

Today, 121 municipal electric utilities provide service in Kansas. These utilities range in size from the Kansas City Board of Public Utilities serving nearly 65,000 customers and almost all of Wyandotte County, to the City of Radium with just 47 residents. Overall, municipal utilities serve approximately 18% of the electric customers in the state.

Municipal utilities also account for approximately 17% of electricity sales in the state. Much of this electricity is self-generated, with 63 of the 121 municipals owning generating capacity. However, a majority of this generation is comprised of peaking units with the community's baseload power typically purchased on the wholesale market. A number of municipals receive an allocation of energy from federal hydropower projects through the Western Area Power Administration (WAPA) and the Southwestern Power Administration (SWPA).

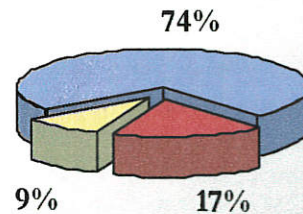
Many municipal electric utilities in the state also work through their joint action agency to coordinate energy purchases. Under the guidelines of K.S.A. 12-885, the Kansas Municipal Energy Agency (KMEA) was organized in 1980. KMEA is the state municipal joint action agency that serves its 55 member cities by purchasing and transmitting blocks of electricity for redistribution among individual cities.

Fig. 1: Kansas Consumers
(No. of meters - 1999 Dept. of Energy)



■ Municipal ■ REC ■ IOU

Fig. 2: Kansas Electricity Sales
(1999 kWh - Dept. of Energy)



■ Municipal ■ REC ■ IOU

Senate Utilities Committee
January 24, 2002
Attachment 3-1

What's New?

It is very difficult to summarize the changes taking place in all 121 municipal electric utilities in Kansas in 2002. However, the trend definitely appears to be towards the addition of new, locally sited generation. Just a few of the generation projects in the works by KMU members are summarized below.

- **Kansas Municipal Energy Agency (KMEA).** KMEA has negotiated for additional Western Area Power Administration hydropower to be available to members in 2004. In addition, the agency is planning to add five diesel units in distributed locations around the state this spring.
- **Kansas City BPU.** The BPU is working with Entergy Corp. (New Orleans) to install a 530 MW natural gas facility near the BPU's existing Nearman Creek Power Station on the Missouri River.
- **Chanute.** Chanute is nearing completion of a new city power plant that will add 47 MW of capacity through a used gas combustion turbines.
- **Russell.** After a devastating explosion on August 23, 2000 that destroyed 75% of its generating facility, the City of Russell is rebuilding a new power plant on a different, more strategic site. The new 15 MW gas turbines will serve as a cogeneration facility, providing steam for a new ethanol facility.
- **Winfield.** The city plans to install a permanent 3.2 MW in 2002 (diesel) and roughly 40 MW (gas) in 2004. However, the city faces problems with gas pipeline capacity (Reliant Energy) and available transmission capacity (KGE).
- **Coffeyville:** Coffeyville is currently working on a new municipal generating agreement with Western Resources, as the city's existing agreement expires October 1, 2002. Initial plans to install between 100 and 200 MW of simple-cycle gas turbines are on hold as Western Resources has recently indicated to the city that they have sufficient capacity through 2007.
- **Hugoton:** Hugoton, one of last electric utilities in the nation to remain unconnected from the grid will become interconnected for the first time this summer. The city, situated on what was once one of the world's largest natural gas fields, is working with Sunflower Electric and Pioneer Electric on the interconnection project.
- **Mulvane:** Mulvane plans to add a new 9.2 MW power plant in 2003. The plant will include two 4.1 MW dual fuel engines and one 1 MW diesel EMD. In addition, two 0.6 MW diesel engines will be added to the existing plant.
- **Sterling.** Sterling is in the process of installing three used dual fuel engines with a capacity of 1.4 MW each. The refurbished engines will double the city's current capacity and they plan to sell the excess capacity through Western Resources.

UtiliCorp in Brief

UtiliCorp United (NYSE:UCU) is an international energy and services company based in Kansas City, Missouri. Since being formed in 1985 from Missouri Public Service Company, UtiliCorp has grown through regulated and non-regulated energy acquisitions and investments totaling about \$3 billion. At December 31, 2000, the company had total assets of \$14.1 billion and 12-month sales of \$29.0 billion.

UtiliCorp has a strong national presence as a provider of competitive and innovative energy solutions, and a growing presence in the international arena. The company serves more than 4 million customers. It distributes electricity and natural gas in the midwestern United States and in Canada, New Zealand and Australia. The Aquila, Inc. subsidiary provides risk management services and wholesales electricity and natural gas across North America and in the United Kingdom, Spain, Germany and Norway.

UtiliCorp serves about 1.3 million electric and gas utility customers in Missouri, Kansas, Iowa, Nebraska, Colorado, Michigan, and Minnesota through seven divisions: Missouri Public Service, St. Joseph Light & Power, Kansas Public Service, Peoples Natural Gas, WestPlains Energy, Northern Minnesota Utilities, and Michigan Gas Utilities. The recently formed UtiliCorp Networks Canada serves about 503,000 electric customers in British Columbia and Alberta. It operates as West Kootenay Power in British Columbia.

Through Aquila, UtiliCorp markets natural gas and electricity to industrial and wholesale customers in nearly all of the contiguous 48 states. It is also active in much of Canada. Aquila is continually expanding its offerings of energy, commodity and risk management products and services, including its line of GuaranteedWeather[®] financial hedges. Through Aquila Gas Pipeline Corporation, Aquila also gathers, transports and processes natural gas and gas liquids in Texas and Oklahoma. UtiliCorp began marketing natural gas to industrial and commercial customers in major markets of the United Kingdom in 1992. In 1999 Aquila also began to extend its energy marketing reach into the European Continent, opening offices in Germany and Norway.

UtiliCorp has operated internationally since 1987, when it acquired West Kootenay Power, a hydroelectric utility. The company entered the New Zealand market in 1993. Today it is 62 percent owner of UnitedNetworks Limited, based in Auckland. Through a series of transactions in late 1998 and early 1999, UtiliCorp made UnitedNetworks New Zealand's largest operator of electric lines, with a 30 percent market

-more-

share. In April 2000, UnitedNetworks purchased the gas distribution operations of Orion New Zealand Ltd. UnitedNetworks today serves 620,000 consumers.

In 1995, a UtiliCorp-led consortium purchased United Energy, the first Australian utility to be privatized. United Energy distributes electricity to about 551,000 customers in metropolitan Melbourne, Victoria. UtiliCorp manages the utility's operations and now holds a 34 percent ownership interest, following United Energy's 1998 initial public offering. In early 1999, UtiliCorp acquired a 50 percent economic interest in Multinet/Ikon, the largest natural gas distribution/retail business in Victoria. With 596,000 gas customers, Multinet is now managed by United Energy. In October 2000, UtiliCorp and United Energy completed their purchase of 45 percent of AlintaGas, a gas distribution utility serving 431,000 customers in Western Australia.

Effective December 31, 2000, UtiliCorp and St. Joseph Light & Power Company merged in a stock transaction valued at approximately \$190 million. St. Joseph Light & Power serves 70,000 customers in northwest Missouri. In January 2001, UtiliCorp terminated its agreement to merge with Empire District Electric Company, based in Joplin, Missouri, because of difficulty obtaining needed regulatory approvals.

On August 31, 2000, UtiliCorp acquired TransAlta Corporation's Alberta-based electricity distribution and retail businesses for \$480 million. The transaction involved 368,000 customers served by about 57,000 miles of power distribution lines. Operating as UtiliCorp Networks Canada, the company subsequently entered into a \$75 million agreement to assign the retail business to EPCOR, an Alberta utility company. UtiliCorp Networks Canada continues to operate the distribution system as well as the businesses of West Kootenay Power.

UtiliCorp entered into a strategic alliance in September 1999 with Quanta Services, Inc., the leading nationwide provider of specialized contracting services to electric utilities, telecommunications and cable television companies, and government. UtiliCorp currently holds a 36 percent equity interest in Quanta.

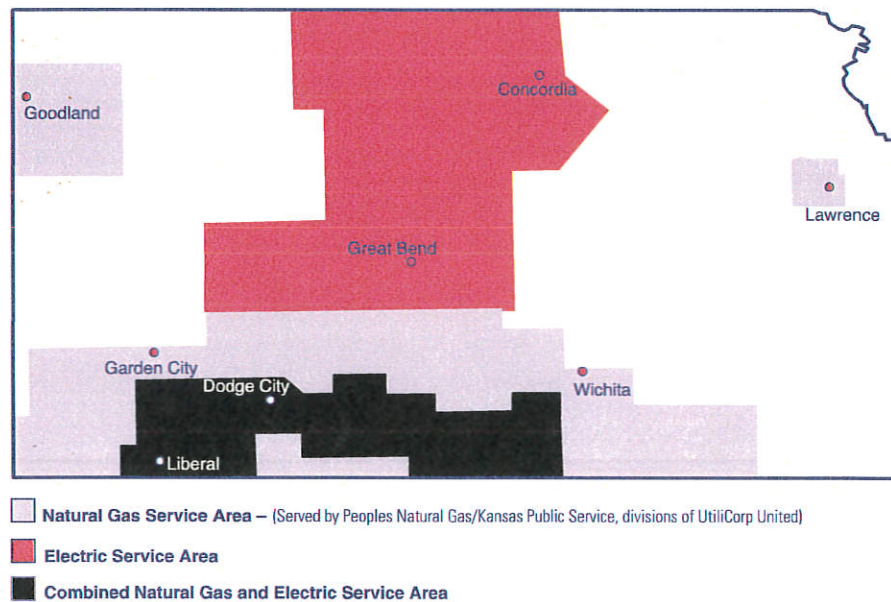
On the *Fortune 500* list, UtiliCorp ranked 60th based on 2000 sales. The company is also included in *Fortune's* list of America's Most Admired Companies. UtiliCorp is on the Internet at www.utilicorp.com.

Kansas

WestPlains Energy, an operating division of UtiliCorp United, delivers regulated electric service, along with related products and services.

Peoples Natural Gas and Kansas Public Service, UtiliCorp United operating divisions that deliver regulated natural gas, along with related products and services.

WestPlains Energy, Peoples Natural Gas and Kansas Public Service have a long history of supporting economic development, education and community activities.



- Electric Customers: 68,660
- Natural Gas Customers: 101,794
- Communities Served: 195
- Total Company Employees In Kansas: 440
- Total Kansas Annual Payroll: \$19,812,340
- Total Company Taxes Paid In Kansas: \$18,683,279
(Includes property, income and franchise)
- Total Capital Investments In Kansas For 2001: \$29,200,000
- Total Plant Investment In Kansas: \$242,800,000

**TESTIMONY SUBMITTED
TO THE JOINT MEETING OF THE
SENATE AND HOUSE UTILITIES COMMITTEES**

**By
Mr. Earl Watkins, Executive Vice President and General Counsel
SUNFLOWER ELECTRIC POWER CORPORATION**

January 24, 2002

Thank you, Mr. Chairman and members of this Committee for providing Sunflower time to update you on our activities. As most of you know, we were organized in 1957 and provide reliable wholesale power to the six rural electric cooperatives that own Sunflower.

While we have many things to report, I know that your time is limited, so I will only focus on a few of those things I believe might be of interest to you. Those are our performance in the last year, the rate case we've filed with the Kansas Corporation Commission, our debt restructuring activities and finally, the new coal-fired power plant we're developing in southwest Kansas.

Regarding our performance, I want to point out that as I stand here today our largest unit, Holcomb Unit #1, has been on line and available for service for 188 consecutive days. As the other speakers would no doubt agree, reliability is a fundamental requirement for all utilities in this modern age. While we have not yet reached our record of 233 consecutive days of operation, a record set in March 1992, there is a growing amount of confidence by our plant personnel that we will indeed exceed that all-time production record. The only problem with the establishment of that record is that our planned Spring maintenance outage is scheduled to begin on March 8. That would leave us two days short of a new record.

Sunflower set new generation records in 2001. While Holcomb just missed their record, when combined with the production from Sunflower's five other generating units, a new all-time production record of 2,698,468 MWH was achieved. As you no doubt understand, we are very proud of the accomplishments of our employees as they continue to operate Sunflower's facilities far above the performance levels of similar-sized plants across the

United States.

In addition to the importance of reliability, Sunflower is well aware of our customer's sensitivity to the price of power. In December, our Average Member Rate was 4.1 cents per kilowatt-hour. That is 44% below the price Sunflower charged for its power in 1985.

The second thing I mentioned was the rate case Sunflower filed with the Kansas Corporation Commission. The primary element of the case is a request by Sunflower for a reduction in its rates from current levels. Additionally, Sunflower is asking the KCC to rule on its proposed Open Access Transmission Tariff. Other elements of the case involve Sunflower's request for approval of O&M and Capital Lease riders to the tariff which are mechanisms that will provide for the financing of any extraordinary operations and maintenance expenses, should they occur, and for the financing of any capital expenditures beyond what is provided for in its current debt restructuring agreements.

Thirdly, I mentioned Sunflower's debt restructuring activities. As most of you know, Sunflower has been working with the Rural Utilities Service (RUS) for years to restructure its debt. I am more than a little pleased to be able to report to you today that we have, in fact, established the principal elements of a final agreement with the RUS on what amounts to 82% of Sunflower's outstanding debt. We are still in the process of finalizing the same type of arrangements with what we call Sunflower's "civilian" creditors. At this point, we expect to complete these transactions in late June or early July. The new agreements call for a restructuring of not only our financing documents, but of our corporate structure as well. When more time is available and the transaction completed, I'd be happy to return to describe the "new" Sunflower to the Committees.

The final issue I identified is Sunflower's work on what is known as the Sand Sage project. When completed, this project will result in the construction of a new 600 MW coal-fired

power plant on the site of our existing plant near Garden City, Kansas. Sunflower first announced the development of this new facility, in cooperation with our partners last August. I have attached a copy of the news release to my testimony.

We are progressing quite nicely on the project and certainly want to point out that without the legislation advanced by these Committees, the project would probably be infeasible. We are hoping that in the next 60-90 days we will be able to report the name of the firm(s) that will build the unit and also announce the other utilities that are participating in this new facility. Obviously, everyone at Sunflower is very excited about this project and the opportunities it will bring to all who are involved.

Finally, Mr. Chairman, I need to tell you about two new customers we've entered into agreements with since the last time I reported to these Committees. First, we are very excited about a new agreement between Sunflower and KEPCo where we will provide for the delivery of 40 MW to our cooperative brothers beginning later this year. We are also very excited about the addition of the City of Hugoton to our system. Hugoton has always been an "electrical island" in that it was not connected to the national transmission grid. Sunflower is working along with Pioneer Electric Cooperative, our second largest Member, to get the city attached to the transmission system so that our service to them can begin later this summer.

That's it for today, Mr. Chairman. I hope this short summary of some of the activities we're involved with at Sunflower provides you and the Committees with information you need to make sound energy policy for Kansas during these difficult economic times. I would be happy to answer any questions.

NEWS RELEASE

August 2, 2001

For Immediate Release

SUNFLOWER ELECTRIC AND INTERNATIONAL ENERGY PARTNERS TO DEVELOP 600 MW POWER PLANT IN SOUTHWEST KANSAS

Sunflower Electric Power Corporation and International Energy Partners, L.P., today announced plans to develop a 600 megawatt coal-fired power plant near Garden City, Kansas.

The new plant will be a joint venture between Sunflower and IEP, a developer of independent power projects based in Bethesda, Maryland. Sand Sage Power, LLC, the project company formed by Sunflower and IEP, will own the plant. The facility, estimated to cost between \$600-\$800 million, will be project-financed with non-recourse debt.

Sunflower and IEP have worked together for nearly a year to determine the feasibility of the project. At this point in the process they have determined that it is appropriate to finalize plans for the equity participants and continue negotiations for long-term power supply agreements with other utilities and power marketers. When these transactions are successfully completed, the project will move into the construction phase.

"This project will add an increased measure of system reliability for our Kansas consumers without causing Sunflower to incur any additional debt," Sunflower President and CEO Chris Hauck said. "It marks another step in our strategy to maximize the value of Sunflower assets for the benefit of our Member Systems."

Thomas Hoffmann, president and CEO of IEP said, "We're delighted to be partnering with Sunflower to provide Kansas and the regional market with a reliable, low-cost supply of electric power. Sand Sage Power will supply power in this region of the country where the need for new electric power is increasing and supplies are getting tighter. Securing a reliable supply at a stable price will be of paramount importance to wholesale marketers and end-use customers alike."

The Sand Sage Power project will be built on a site owned by Sunflower. The new power plant will be integrated with Sunflower's Holcomb Unit #1 through common facilities to minimize the project's capital cost. Sand Sage Power will pay Sunflower for the use of those facilities and for the operation and maintenance of the new plant.

An air permit application was filed by Sand Sage Power with the Kansas Department of Health and Environment in June 2001. Construction is expected to begin as early as mid-year 2002, pending approvals from local, state and regulatory officials. Commercial operations are expected to start in 2005. Power from the plant is anticipated to be sold under a combination of long-term arrangements as well as to retail markets in Kansas and deregulated states in the region.

Hauck commented on other valuable Sunflower assets—its employees and Board of Directors saying, "The dedication of all our Sunflower employees over the years has helped us reach this new business plateau. The skill of our workforce as demonstrated by our operational proficiency was an attraction for our development partner. The board's visionary leadership has brought us to a point where we can continue to assure western Kansans that their power supply is reliable, plentiful and reasonably priced."

The regional benefits of the new plant will be substantial Hauck said, "Sunflower is focused on examining strategic alliances with other companies to help western Kansas grow and prosper. Our project with IEP will help us increase our presence in the region and will create approximately 40 new permanent jobs in addition to the hundreds of workers that will be needed during the three-year construction phase of the project."

About Sunflower Electric Power Corporation

Sunflower is a regional wholesale power supplier headquartered in Hays, Kansas. It is owned by six western Kansas electric cooperatives who serve more than 120,000 people in 34 counties. More information about Sunflower can be found at: www.sunflower.net.

About International Energy Partners

IEP was formed in 1993 to develop, own and operate independent power projects in select markets throughout the world. It is owned, in part, by the Energy Investors Funds Group of Boston, Mass., an affiliate of Dresdner Kleinwort Capital.

Contact:

Steve Miller, Sr. Manager, External Affairs
Telephone: (785) 623-3364, smiller@sunflower.net

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**Testimony before the joint meeting
of the Senate Utilities Committee and the House Utilities Committee
By
Richard A. Dixon, Senior Vice President, Customer Operations
Westar Energy
January 24, 2002**

Chairman Clark, Chairman Holmes and members of the committees, I am Dick Dixon, senior vice president, customer operations for Westar Energy.

2001 was a year of change. As we stand here today, we have a new management team and a renewed focus on providing quality electric service at below national average prices to Kansas. After a year of challenge, our message in 2002 is positive. The news is good.

Two weeks ago, Public Service Company of New Mexico (PNM) announced its intention to end the proposed merger of our electric operations. While the matter is in litigation, we are moving forward. A few months ago, when PNM made clear that it was not moving forward on the merger, our board of directors made an important strategic decision. That decision, simply put, was to end efforts to merge, acquire or combine with other companies for the sake of growth. The end of the PNM/Western Resources merger is also the end of what has essentially been a continuous period of deal-making during the past several years.

Today, our market is Kansas. Our customers are Kansans. Our focus is developing a business model and structure that can allow the company to succeed in the market place we have. The reality is that change is necessary to be successful. In the past several years, operating costs have increased by seven percent each year ... year after year. While revenues have increased less than one percent per year. Those trends could not continue.

Westar Energy feels the deterioration of the economy. A number of large industrial customers are making significant reductions in their energy consumption, and those changes obviously have a negative impact on our revenues.

Painful as it was, a series of cost-reduction efforts were necessary, including staff reductions. Those efforts were focused on finding creative ways to meet the needs of our customers and maintain quality of service. It is not business as usual. Our company is pursuing new ways to operate our generation facilities. Wholesale electricity markets are different than they were for the past four years. Wholesale prices and margins are lower because of increased generation capacity and reduced demand resulting from the economic recession.

Did I say there was good news?

Efforts to market our native capacity — Kansas based generation assets — are bearing fruit. Wholesale customers for our electricity are there, and our product is competitive. Utilities in other states are finding it less expensive to buy our coal-fired electricity than burning natural gas to produce energy. We are selling into those markets.

A short-term recession does not dampen our enthusiasm for the long-term future in Kansas. It does require us to be judicious in our investments in facilities. New generation capacity cannot rapidly outstrip demand growth or market prices for our product will fall below costs of providing the service.

Westar Energy is also becoming more competitive other ways. Debt reduction is a priority for the management team. In 2001, our company paid off more than 100 million dollars in debt. The company has filed with the Kansas Corporation Commission a financial restructuring plan, which has the potential of paying off more than one billion dollars in debt and restoring the company's debt instruments to investment grade ratings.

6-2

We also are pursuing opportunities for participation in proposed wind farms in Western Kansas and evaluating the opportunities that may exist for our customers and the state in developing this industry.

Security is another area, where focus has been renewed, in the aftermath of the September 11th attacks. We have always been mindful of the need for security for our critical facilities. We continue to carefully evaluate security efforts and procedures to assure the safety and reliability of our electric system.

Late last year, our company announced a new name for its utility operations. On January 1st, Westar Energy became the new brand name for electric services throughout our service territory, replacing the KGE and KPL brands. The change, which customers are learning about through bill notifications and advertising, will save money, improve efficiency and help our company build a better relationship with our customers. The underlying business structure does not change as this branding effort is implemented. Look for billboards announcing the change in the next couple of weeks, and television and print advertising next month.

There are many challenges ahead for the company, but we can report progress and a commitment to work with you, the corporation commission and our customers to assure reliable electric service at competitive prices.

6-3

Kansas City Power & Light Company
Information for the
Joint Meeting with House and Senate Utilities Committees
January 24, 2002

Chris Giles
Senior Director Regulatory and Risk Management

KCPL Generating Capacity

Kansas City Power & Light Company serves over 460,000 customers in Kansas and Missouri. During the summer of 2001, with an accredited capacity of 3,904 MW, KCPL's load reached a peak of 3,352 MW--a reserve margin of 16%.

KCPL meets its firm load obligations through a wide mix of resources including coal, nuclear, natural gas and oil fired generation. The following table summarizes KCPL's capacity for 2002.

Resource Type	Capacity (MW)	Percent of Total
Coal	2,235	56.8%
Nuclear	550	14.0%
Natural Gas	488	12.4%
Oil	460	11.7%
Net Purchases	199	5.1%
Total	3,932	100.0%

KCPL's peak load is projected to grow at a little over 2% per year. In recognition of this increased load obligation, KCPL has recently entered an agreement with General Electric for the purchase or lease of five combustion turbines (CTs). These CTs are rated at 77 MW each for a total of 385 MW. Three of these CTs will be needed to meet our obligations by 2003.

Senate Utilities Committee
January 24, 2002
Attachment 7-1

The following table summarizes our peak load responsibility along with our planned resources and projected reserve margins. This table reflects the addition of three CTs in 2003.

Year	Peak (MW)	Capacity (MW)	Reserve Margin
2002	3438	3932	14.4%
2003	3517	4096	16.5%
2004	3595	4095	13.9%
2005	3674	3844	4.6%
2006	3755	3843	2.3%
2007	3830	3842	0.3%
2008	3907	3842	-1.7%
2009	3985	3842	-3.6%
2010	4065	3842	-5.5%

While the table reflects projected reserve margins dropping below the Southwest Power Pool required 13.6%, KCPL is constantly evaluating alternatives for meeting our firm load obligations and will respond accordingly to ensure that the Company has capacity and energy to meet our obligation to serve. The Company's needs may be met by constructing our own capacity or by purchasing capacity from other entities if that capacity and energy is the least cost alternative available.

Great Plains Power

As of October 1, 2001, KCPL became a subsidiary of Great Plains Energy (GPE), a new utility holding company. At the same time, Great Plains Power (GPP), another subsidiary of Great Plains Energy, was formed as an unregulated power producer. GPP is in the process of developing a 600 – 800 MW coal fired plant, Weston Bend 1, to be located north of Kansas City near Weston, Missouri. The targeted completion date is 2006.

This plant will compete in the wholesale market as an unregulated generator with no obligation to KCPL's customers. In fact, KCPL customers will benefit by having

additional capacity in the region, thus lowering market prices that KCPL will have to pay when unit outages or other unforeseen events occur.

Regional Transmission Organizations and the Impact on Utilities

In order to facilitate the development of wholesale electricity markets, the Federal Energy Regulatory Commission (FERC) has asked transmission-owning utilities to join Regional Transmission Organizations (RTOs). While there is currently no deadline for joining, existing utilities will eventually turn over operational control of their transmission systems to these RTOs. The idea is to ensure equal access for all wholesale buyers and sellers of electricity to the nation's electric grid.

There are two basic methods for participating in a RTO: (1) enter an operating agreement with the RTO or, (2) sell the transmission system to a stand-alone transmission company or Transco. Under an operating agreement, the RTO and utility enter an agreement outlining the responsibilities of each party. In the near term, existing utilities will retain physical control of the system, but will take their direction from the RTO. Both of these methods are currently being contemplated by utilities.

The development of RTOs across the country will bring about major changes in the operation of the electric industry. Along with insuring equal access to the transmission grid, RTOs are charged with several responsibilities that impact how this business works. For example, FERC requires RTOs to provide access to a real-time energy balancing market (spot market). This is a market for making purchases or sales of electricity instantaneously in order to match supply and demand. Suppliers bid their generation into the spot market with the RTO deciding which generators to run. Theoretically, each generator on the grid will bid every kWh of energy into this spot market. Entities responsible for serving end-use customers will purchase every kWh needed through this market. This is a major change from how business is done today as there is currently no centralized spot market. While every kWh of electricity may be bought and sold through this new spot market, not all wholesale energy will be priced at spot market prices. Financial contracts can be put in place to set the price of electricity at something other than the spot price. It is expected that only 10 – 15% of electricity

bought and sold in the wholesale market will actually be priced at spot market prices and the remainder will be under contract.

Another major change that RTOs will bring is in how congestion on the transmission system is handled. Today, the use of the transmission system is based on a first-come-first-served basis. A user of the system places a request with the transmission provider and if space is available on the requested portion of the system, they can use it for a fixed price. In other words, the limited capacity of the grid is rationed based on who puts in a request first. Under a RTO, the limited capacity of the system is rationed based on price. The user that is willing to pay the most for use of the system gets to use it first.

In order to keep existing retail customers from being out-bid for use of the transmission system, RTOs are developing financial rights that will be allocated to existing utilities based on their current use of the system. These rights help protect native customers from being priced out of the market.

These are just two examples (spot market and congestion management) of the major changes associated with the development of RTOs. Existing utilities will be confronted with a system that is considerably different than what exists today and will require a substantial effort to learn and understand the new risks and opportunities involved.

Regulators will also need to understand and adapt to these changes. Even though Kansas is not moving forward with retail competition, the days of vertically integrated utilities (generation, transmission and distribution service reside in one vertically integrated company) look numbered. As wholesale markets open up and RTOs form, more generation is being built by Independent Power Producers (IPPs) and less electricity is produced by regulated utilities. Regulated utility companies will increasingly rely on IPPs to provide electricity. This is similar to what exists today in the natural gas industry, with unregulated production supplying the regulated local distribution companies.

Joint Meeting
House and Senate Utilities Committees
January 24, 2002

My name is Jim Widener. I am the General Manager of both the Kansas Municipal Energy Agency (KMEA) and the Kansas Municipal Gas Agency (KMGA). Both agencies were created under the authority of enabling state legislation.

Both agencies are established to be non-profit entities. Both agencies operate under similar rules of a municipality – open records, open meeting, cash basis, etc. Each member city has representatives on the agencies' Board of Directors.

Membership

KMEA presently has 57 member cities, with an additional four (4) expected to join at our Board of Directors meeting in May. KMGA has 60 member cities with one (1) city expected to join in May. All together, 92 cities are presently members of KMEA, KMGA or both, with an additional four (4) expected to become members in May.

Capacity

KMGA provides approximately 4,000,000 MMBtu of gas annually to member cities. For several years, KMGA has been considering a gas acquisition prepay program for a ten-year partial supply.

KMEA's member cities have approximately 700 MW of self-generation, 120 MW of power contracted through KMEA, and other direct power agreements.

Additional generation capacity anticipated is as follows:

- The City of Russell is adding 15 MW of combustion turbines this spring
- The City of Chanute is adding a 47 MW combustion turbine this spring
- Four cities are planning to add five (5) 1.6 MW of Caterpillar diesel units this spring. Three (3) of the units will be trailer mounted for portability.
- Western Area Power Administration has published the Post 2004 Final Hydro Allocation in the *Federal Register* on January 10, 2002. Eleven (11) cities in Kansas have been allocated approximately 6 MW of hydropower, starting in the fall of 2004. Several Kansas cooperatives and Native American tribes have also received an allocation of hydropower.

Transmission

Typically, electric municipalities do not have transmission lines. Most of KMEA's member cities have only one interconnect with their control area utility. Thus, the cities are dependent on others transmission lines to gain access to economical and reliable power sources.

In 2001, KMEA successfully settled a FERC case with the Southwest Power Pool (SPP) to allow 39 MW of Grand River Dam Authority (GRDA) power to flow into Kansas over firm transmission. An unresolved transmission issue is that a 2009 computer model of Western Resources (WRI) transmission lines, shows an overload that would either preclude 24 MW of power reaching Kansas cities or cost KMEA's project participants \$6,300,000 to rebuild WRI's line.

The delivery of Western Area Power Administration's Post 2004 Hydropower Allocation for all Kansas recipients could be an issue. Without transmission, the Federal hydropower will revert back to the Administration.

The regional Transmission Organization (RTO) will be a major factor in future transmission access, but with uncertainty and limited knowledge no comments can be made at this time.

Quality of Service

In 2000, KMEA formalized a Mutual Aid Program (MAP) for cities to assist each other in the event of an emergency that affects the operation of their electric utility. In March 2001, a tornado struck Hoisington and the Mutual Aid Program was activated. Numerous cities and other state utilities responded to help restore electric service and to assist in rebuilding of the city's electric distribution system. FEMA reviewed and accepted KMEA's Mutual Aid Program and provided funds. MAP presently has 41 participants, with an additional fifteen (15) expected to join in March.

The addition of three (3) 1.6 MW of Caterpillar trailer mounted units will assist in providing service restoration in the event of a major outage.

8-3

Legislation

KMEA and KMGA member cities are typically also members of the Kansas Municipal Utilities (KMU) and the League of Kansas Municipalities (the League). As such, our position on legislation is closely aligned with KMU and the League.

As an overriding philosophy, our member cities are governed by locally elected officials, who feel they represent and are responsive to their citizens. If the citizens don't agree, they have the right to recall their elected officials or vote in someone else at the next election. With the local checks and balances, the cities would request opt-in, opt-out or home rule provision in some legislation so that local needs/concerns can be addressed locally.

8-4



Department of Energy
Western Area Power Administration
Rocky Mountain Customer Service Region
P.O. Box 3700
Loveland, CO 80539-3003

JAN 10 2002

Dear Interested Parties and Loveland Area Projects Customers:

The Western Area Power Administration's Rocky Mountain Region published Federal Register notice 67 FR 1341 on January 10, 2002. The enclosed Federal Register notice sets forth the final power allocations for the Loveland Area Projects post-2004 resource pool.

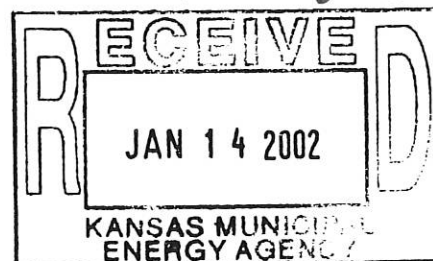
If you have questions or need additional information, please telephone Bob Kennedy at (970) 461-7259.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald W. Steinbach".

Ronald W. Steinbach
Marketing Manager

Enclosure



intervenor. Likewise, each intervenor must provide 14 copies of its filings to the Secretary of the Commission and must send a copy of its filings to all other parties on the Commission's service list for this proceeding. If you want to become an intervenor you must file a motion to intervene according to Rule 214 of the Commission's rules of practice and procedure (18 CFR 385.214) (see appendix 2).⁴ Only intervenors have the right to seek rehearing of the Commission's decision.

Affected landowners and parties with environmental concerns may be granted intervenor status upon showing good cause by stating that they have a clear and direct interest in this proceeding which would not be adequately represented by any other parties. You do not need intervenor status to have your environmental comments considered.

Additional information about the proposed project is available from the Commission's Office of External Affairs at (202) 208-1088 or on the FERC Web site (www.ferc.gov) using the "RIMS" link to information in this docket number. Click on the "RIMS" link, select "Docket #" from the RIMS Menu, and follow the instructions. For assistance with access to RIMS, the RIMS helpline can be reached at (202) 208-2222.

Similarly, the "CIPS" link on the FERC Internet Web site provides access to the texts of formal documents issued by the Commission, such as orders, notices, and rulemakings. From the FERC Internet Web site, click on the "CIPS" link, select "Docket #" from the CIPS menu, and follow the instructions. For assistance with access to CIPS, the CIPS helpline can be reached at (202) 208-2474.

Linwood A. Watson, Jr.,
Acting Secretary.
[FR Doc. 02-570 Filed 1-9-02; 8:45 am]
BILLING CODE 6717-01-P

DEPARTMENT OF ENERGY

Federal Energy Regulatory Commission

[Docket Nos. RT02-2-000, RT01-2-000, RT01-98-000, RT01-95-000, and RT01-86-000]

Notice of State-Federal Northeast Regional Panel Discussion

January 3, 2002.

In the matter of: State-Federal Regional RTO Panels; PJM Interconnection, L.L.C.,

⁴ Interventions may also be filed electronically via the Internet in lieu of paper. See the previous discussion on filing comments electronically.

Allegheny Electric Cooperative, Inc., Atlantic City Electric Company, Baltimore Gas & Electric Company, Delmarva Power & Light Company, Jersey Central Power & Light Company, Metropolitan Edison Company, PECO Energy Company, Pennsylvania Electric Company, PPL Electric Utilities Corporation, Potomac Electric Power Company, Public Service Electric & Gas Company, UGI Utilities Inc.; PJM Interconnection, L.L.C. and Allegheny Power; New York Independent System Operator, Inc., Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Orange and Rockland Utilities, Inc., Rochester Gas & Electric Corporation; Bangor Hydro-Electric Company, Central Maine Power Company, National Grid USA, Northeast Utilities Service Company, The United Illuminating Company, Vermont Electric Power Company, ISO New England Inc.; Notice of State-Federal Northeast Regional Panel Discussion

Take notice that on January 9, 2002, a State-Federal Northeast Regional Panel discussion will be held, pursuant to the Commission's order issued November 9, 2001, in Docket No. RT02-2-000, *et al.*¹ A transcript of the panel discussion will be placed in the above listed dockets.

Linwood A. Watson, Jr.,
Acting Secretary.
[FR Doc. 02-571 Filed 1-9-02; 8:45 am]
BILLING CODE 6717-01-P

DEPARTMENT OF ENERGY

Federal Energy Regulatory Commission

[Docket No. RM98-1-000]

Regulations Governing Off-the-Record Communications; Public Notice

January 4, 2002.

This constitutes notice, in accordance with 18 CFR 385.2201(h), of the receipt of exempt and prohibited off-the-record communications.

Order No. 607 (64 FR 51222, September 22, 1999) requires Commission decisional employees, who make or receive an exempt or a prohibited off-the-record communication relevant to the merits of a contested on-the-record proceeding, to deliver a copy of the communication, if written, or a summary of the substance of any oral communication, to the Secretary.

Prohibited communications will be included in a public, non-decisional file

¹ Order Announcing the Establishment of State-Federal Regional Panels to Address RTO Issues, Modifying the Application of Rule 2201 in the Captioned Dockets, and Clarifying Order No. 607, 97 FERC ¶ 61,182 (2001).

associated with, but not part of, the decisional record of the proceeding. Unless the Commission determines that the prohibited communication and any responses thereto should become part of the decisional record, the prohibited off-the-record communication will not be considered by the Commission in reaching its decision. Parties to a proceeding may seek the opportunity to respond to any facts or contentions made in a prohibited off-the-record communication, and may request that the Commission place the prohibited communication and responses thereto in the decisional record. The Commission will grant such requests only when it determines that fairness so requires. Any person identified below as having made a prohibited off-the-record communication should serve the document on all parties listed on the official service list for the applicable proceeding in accordance with rule 2010, 18 CFR 385.2010.

Exempt off-the-record communications will be included in the decisional record of the proceeding, unless the communication was with a cooperating agency as described by 40 CFR 1501.6, made under 18 CFR 385.2201(e)(1)(v).

The following is a list of exempt and prohibited off-the-record communications received in the Office of the Secretary within the preceding 14 days. Copies of this filing are on file with the Commission and are available for public inspection. The documents may be viewed on the web at <http://www.ferc.gov> using the "RIMS" link, select "Docket#" and follow the instructions (call 202-208-2222 for assistance).

Exempt

1. CP01-438-000, 12-28-01, David Swearington
2. Project No. 1927-028, 12-28-01, Ellen D. Smith
3. Project No. 1927-028, 12-28-01, Ellen D. Smith
4. Project No. 2342-000, 12-28-01, Loree Randall

Linwood A. Watson, Jr.,
Acting Secretary.
[FR Doc. 02-573 Filed 1-9-02; 8:45 am]
BILLING CODE 6717-01-P

DEPARTMENT OF ENERGY

Western Area Power Administration

Post-2004 Resource Pool-Loveland Area Projects

AGENCY: Western Area Power Administration, DOE.

8-6

ACTION: Notice of final power allocations.

SUMMARY: Western Area Power Administration (Western), a Federal power marketing agency of the Department of Energy (DOE), announces its Post-2004 Resource Pool Final Allocation of Power developed under the requirements of Subpart C—Power Marketing Initiative of the Energy Planning and Management Program (Program) Final Rule. This notice also includes Western's responses to public comments on proposed allocations published May 11, 2001.

Final allocations are published to show Western's decisions prior to beginning the contractual phase of the process. Firm electric service contracts, negotiated between Western and allottees in this notice, will permit delivery of the allotted power from the October 2004 billing period, through the September 2024 billing period.

DATES: The Post-2004 Resource Pool Final Allocation of Power will become effective February 11, 2002 and will remain in effect until September 30, 2024.

ADDRESSES: All documents developed or retained by Western in developing the final allocations are available for inspection and copying at the Rocky Mountain Customer Service Region Office, 5555 East Crossroads Boulevard, Loveland, CO 80538-8986.

SUPPLEMENTARY INFORMATION: Western published Final Post-2004 Resource Pool Allocation Procedures (Procedures) in the *Federal Register* (65 FR 52419, August 29, 2000) to implement Subpart C—Power Marketing Initiative of the Program's Final Rule (10 CFR part 905), published in the *Federal Register* (60 FR 54151, October 20, 1995). The Program, developed in part to implement section 114 of the Energy Policy Act of 1992, became effective November 20, 1995. The goal of the Program is to require planning and efficient electric energy use by Western's long-term firm power customers and to extend Western's firm power resource commitments. One aspect of the Program is to establish project-specific power resource pools and allocate power from these pools to new preference customers.

Western published its proposed allocations and initiated a public comment period in the *Federal Register* (66 FR 24133, May 11, 2001). Public information forums on the proposed allocations were held August 2, 7, and 9, 2001. The public comment period was extended from September 10, 2001, to October 12, 2001, in the *Federal*

Register (66 FR 47652, September 13, 2001).

The Procedures, in conjunction with the Post-1989 Marketing Plan (51 FR 4012, January 31, 1986), establish the framework for allocating power from the Loveland Area Projects (LAP) resource pool.

I. Comments and Responses

Comment: Mni Sose asks that Western re-examine its understanding of government-to-government communications.

Response: Western supports DOE's American Indian policy that stresses the need for a government-to-government, trust-based relationship. Western intends to continue its practice of consultation with tribal governments so that tribal rights and concerns are considered prior to any actions being taken that affect the tribes.

The Post-1989 Marketing Plan, Program, and Procedures form the framework for allocating LAP power. The allocation process was conducted in a consistent manner with all LAP applicants. Prior to publishing proposed allocations, Western, recognizing the unique status of Native American tribes, consulted with tribes before their Applicant Profile Data (APD) submittal and during Western's review of data submitted on their APDs.

Once proposed allocations were published, Western sought to follow the public process and only allow formal comments, written and oral, to be submitted as input to the final allocation decision. Western provided written responses to questions that were not answered in the public forums and extended the comment period in conjunction with those answers to provide additional time for tribes to submit written comments on the proposed allocations. Western will not engage in discussions about the allocations with any parties outside of the formal process until final allocations are published. This procedural rule is applied consistently to tribes as well as non-tribal entities. Western does not believe that this procedural rule affects tribal self-governance rights nor creates an impact upon trust resources.

Western believes that the tribes were consulted about the process and Western considered the information gained from those consultations along with oral and written comments received during the public comment period to make the final allocations.

Comment: Western should not consider the benefits to tribes of Federal power from current service providers when making allocations to the tribes. In the event of the formation of a tribal

utility, that power would be inaccessible to the tribes.

Response: The intent of the Program is to provide the benefits of Federal hydropower directly to individual tribes. Allocations listed in this notice will be made directly to the tribes. Any indirect Western hydroelectric benefits recognized in the calculation method were used by Western to determine a fair share for tribes at the time of allocation with no intent to create any commitment to transfer those benefits to the tribes. Any indirect Western hydroelectric benefits received by the tribes are contractual commitments between Western and the existing customers.

Comment: Western should consider the Wind River Reservation's Marathon and CamWest loads for allocation purposes.

Response: Western agrees that oil and gas resources on the reservation are tribally owned. However, as stated in Western's response to comments in the publication of the Procedures, "When submitting Native American load data as a non-utility, only load of tribal entities and their members will be considered for an allocation." Marathon and CamWest are neither tribal entities nor tribal members. Therefore, the loads submitted in the reservation's APD for these operations were not considered in determining allocations.

Comment: Total allocations to the Wind River Reservation from Salt Lake City Area Integrated Projects (SLCA/IP) and LAP fall short of the 65 percent allocation. LAP should make up any shortfall that occurs between the two projects. The reservation should receive no less of an allocation than if they were located solely within LAP.

Response: LAP took into consideration the amount of the proposed SLCA/IP allocation in determining the final LAP allocation. Western believes that the allocation ultimately provided to the reservation should be congruent with the allocations made to other tribes. Taking into account current serving utility benefit, proposed SLCA/IP allocation, and LAP allocation, Western made every effort possible to provide approximately 65 percent total benefit to the reservation.

Comment: The Kickapoo Tribe in Kansas is concerned about not having the future demand submitted in its APD considered in the allocation process. The tribe understood that proposed growth in the next 2 to 5 years would be considered in the process. The tribe would like Western to consider future growth in the allocation process.

Response: Western stated during the publication of the Procedures that limited projected load estimates would be considered. As Western moved through the process and received data, a determination of definable limitations had to be developed that would ensure fairness in the allocation process and make sure that the pool was used to promote widespread use of the resource among new preference entities. The results of the data evaluation led Western to decide that eligible future load submitted in the APD would be considered in the allocation process only if the load was for facilities that were completed, or substantially near completion, at the time of the APD due date.

Comment: Certain changes should be made to the General Power Contract Provisions that consider tribal sovereignty. Underlying reserve contracts should be offered to tribes to reserve the power allocation for each tribe and allow for changes to the method of implementation. Western's Integrated Resource Planning requirements should be useful but not burdensome to the tribes.

Response: Entering into contractual arrangements with the tribes is the next step in the resource pool allocation process. However, contractual arrangements will not begin until final

allocations are completed. Contractual provisions will be consistent with Section IV of the Procedures.

Comment: Several comments were submitted concerning the source of LAP power for deliveries to allottees in Kansas. Additional comments expressed concern about delivery points, transmission access, transmission arrangements, and cost of delivery arrangements for the allottees in Kansas.

Response: Transmission issues will be appropriately addressed during the contractual phase of the LAP post-2004 resource pool process. Allottees are ultimately responsible for transmission and delivery arrangements, but Western will assist allottees to secure arrangements required to provide the benefits of LAP power to the allottees.

Comment: Kansas Electric Power Cooperative, Inc. (KEPCo) expressed concern about the financial impacts to KEPCo and its member cooperatives. Tribal allocations will reduce sales to KEPCo members. Additional concern was expressed that the lost sales to member cooperatives would make it more difficult to meet Rural Utilities Service commitments for loan repayment.

Response: Western will work with KEPCo, its member cooperatives, and tribes to minimize negative financial impacts of LAP allocations. Western will assist tribes to find the best method

of receiving LAP allocations that will ensure equitable treatment for all affected parties. Western understands that the cooperation of KEPCo and its member cooperatives is essential to making allocations to tribes in northeastern Kansas a success. Western will work to satisfy the needs of the parties involved.

II. Amount of Pool Resources

Western will allocate up to 4 percent of the LAP long-term firm hydroelectric resource available as of October 1, 2004, as firm power. Current hydrologic studies indicate that about 28 megawatts (MW) of capacity and 44 Gigawatthours (GWh) of energy will be available for the summer season. Approximately 24 MW of capacity and 35 GWh of energy will be available for the winter season. Firm power means firm capacity and associated energy allocated by Western and subject to the terms and conditions specified in Western's long-term firm power electric service contracts.

III. Final Power Allocation

The following final power allocations are made in accordance with the Procedures. All of the allocations are subject to the execution of a contract in accordance with the Procedures.

Final allocations for Native American allottees are shown in this table.

Native American allottees	Final post-2004 power allocation			
	Summer kilowatthours	Winter kilowatthours	Summer kilowatts	Winter kilowatts
Iowa Tribe of Kansas and Nebraska	1,986,640	1,722,043	1,232	1,180
Kickapoo Tribe in Kansas	2,760,701	2,323,337	1,713	1,592
Prairie Band Potawatomi Nation	5,536,170	4,458,846	3,435	3,056
Sac and Fox Nation of Missouri	2,690,754	2,289,904	1,669	1,570
Wind River Reservation (Eastern Shoshone and Northern Arapaho Tribes)	2,242,166	1,968,930	1,391	1,350

Native American allottees received LAP allocations, that when combined with existing and future Western hydropower benefits, total approximately 65 percent of their eligible load in both the summer and winter season based on the adjusted seasonal energy data submitted by each tribe. The allocation process considered the current Western hydroelectric benefits received through serving utilities and future Western hydroelectric benefits that will be received by serving utilities as a result of this allocation process.

Based on the applications submitted by the Northern Arapaho and the Eastern Shoshone tribes, Western could not differentiate between each tribe's load. The data from each tribe was used to arrive at a final allocation for the Wind River Reservation instead of each tribe. The final LAP allocation for the reservation considers, in addition to the hydroelectric benefit from Western through the reservation's serving utility, the proposed allocation from Western's SLCA/IP resource pool. The combination of all three factors, LAP, SLCA/IP proposed allocation, and current serving utility benefit, provides

approximately a 65 percent benefit of Western hydroelectric power to the reservation. The reservation's LAP allocation was changed after considering the proposed SLCA/IP allocation published in the **Federal Register** (66 FR 31910, June 13, 2001). Because system plant factors are different for LAP and SLCA/IP, only SLCA/IP's proposed kilowatthours were used to determine the LAP allocation. The allocation change to the reservation had no effect on other tribal allocations.

Final allocations of power for non-Native American utility and nonutility allottees are listed here.

Non-Native American utility and nonutility allottees	Final Post-2004 power allocation			
	Summer kilowatthours	Winter kilowatthours	Summer kilowatts	Winter kilowatts
City of Chapman, KS	254,099	167,487	158	115
City of Elwood, KS	167,205	146,045	104	100
City of Eudora, KS	984,255	683,931	610	469
City of Fountain, CO	3,733,271	2,840,741	2,316	1,947
City of Garden City, KS	3,733,271	2,840,741	2,316	1,947
City of Goodland, KS	1,566,184	1,216,583	972	834
City of Horton, KS	434,979	313,926	270	215
City of Hugoton, KS	743,402	630,379	461	432
City of Johnson City, KS	440,463	336,772	273	231
City of Meade, KS	497,516	313,427	309	215
City of Minneapolis, KS	537,092	339,984	333	233
City of Troy, KS	192,401	150,826	119	103
Doniphan Electric Cooperative Association, Inc., KS	460,699	384,738	286	264
Fort Carson, CO	3,144,463	2,648,172	1,951	1,815
Kaw Valley Electric, KS	3,288,355	2,458,719	2,040	1,685
Midwest Energy, Inc., KS	3,733,271	2,840,741	2,316	1,947
Nemaha-Marshall Electric Cooperative Association, Inc., KS	1,129,867	973,099	701	667
Regional Transportation District, Denver, CO	327,209	287,994	203	198
Sunflower Electric Power Corporation, KS	3,733,271	2,840,741	2,316	1,947
Yellowstone National Park, WY	220,999	145,946	137	100

The allocation change to the Wind River Reservation caused a reduction in the total pool available to non-Native American utility and nonutility allottees. Therefore, the final allocation of power to non-Native American utility and nonutility allottees was changed accordingly.

The final allocations of power shown in the tables above are based on the LAP marketable resource available at this time. If the LAP marketable resource is reduced in the future, all allocations will be adjusted accordingly. Long-term firm energy with associated capacity made available for marketing because an allocation(s) has been reduced or withdrawn may be administratively reallocated by Western's Administrator without further public process.

IV. Review Under the Regulatory Flexibility Act

The Regulatory Flexibility Act of 1980 (5 U.S.C. 601, *et seq.*) requires Federal agencies to perform a regulatory flexibility analysis if a final rule is likely to have a significant economic impact on a substantial number of small entities and there is a legal requirement to issue a general notice of proposed rulemaking. Western has determined that this action does not require a regulatory flexibility analysis since it is a rulemaking of particular applicability involving rates or services applicable to public property.

V. Review Under the National Environmental Policy Act

Western has completed an environmental impact statement on the Program, pursuant to the National Environmental Policy Act of 1969

(NEPA). The Record of Decision was published in the **Federal Register** (60 FR 53181, October 12, 1995). Western's NEPA review assured all environmental effects related to this process have been analyzed.

VI. Determination Under Executive Order 12866

DOE has determined that this is not a significant regulatory action because it does not meet the criteria of Executive Order 12866 (58 FR 51735). Western has an exemption from centralized regulatory review under Executive Order 12866; accordingly, no clearance of this notice by the Office of Management and Budget (OMB) is required.

VII. Determination Under the Small Business Regulatory Enforcement Fairness Act

Western has determined that this rule is exempt from congressional notification requirements under 5 U.S.C. 801 because the action is a rulemaking of particular applicability relating to rates or services and involves matters of procedure.

Dated: December 18, 2001.

Michael S. HacsKaylo,

Administrator.

[FR Doc. 02-618 Filed 1-9-02; 8:45 am]

BILLING CODE 6450-01-P

ENVIRONMENTAL PROTECTION AGENCY

[FRL-7127-5]

FY2002-2003 Great Lakes National Program Office Request for Proposals

AGENCY: Environmental Protection Agency (EPA).

ACTION: Notice of funding availability.

SUMMARY: EPA's Great Lakes National Program Office (GLNPO) is now requesting the submission of Proposals for GLNPO funding through the "FY2002-2003 Great Lakes National Program Office Request for Proposals" (RFP). The RFP solicits Proposals for assistance projects in the areas of Contaminated Sediments, Pollution Prevention and Reduction, Ecological (Habitat) Protection and Restoration, Invasive Species, Habitat Indicator Development, and Emerging or Strategic Issues.

DATES: The deadline for submission of Proposals is February 15, 2002.

Document Availability: The RFP is available on the Internet at <http://www.epa.gov/glnpo/fund/2002guid/>. It is also available from Lawrence Brail (312-886-7474/brail.lawrence@epa.gov).

FOR FURTHER INFORMATION CONTACT: Mike Russ, EPA-GLNPO, G-171, 77 West Jackson Blvd., Chicago, IL 60604 (312-886-4013/russ.michael@epa.gov).

SUPPLEMENTARY INFORMATION: USEPA's Great Lakes National Program Office is targeting a total of \$2.9 million to award in the summer and fall of FY 2002 for Great Lakes projects pertaining to: Contaminated Sediments; Pollution

8-9

Midwest Energy, Inc.
Update on Utility Industry Issues
Joint House-Senate Utilities Committee
January 24, 2002

I. Providing Energy Services in Western Kansas . . . Today

Midwest Energy, Inc. is a provider of electric and natural gas energy services in western Kansas, and has positioned itself to provide those services in a reliable and economic fashion. Through a series of strategic decisions over the years, Midwest has shaped its main role as that of a delivery company. While we can and do provide the energy itself to many of our customers, we are in a position to support our customers in their quest to obtain the most economic energy supplies available, regardless of its source.

We provide both electric and natural gas service in all or parts of forty counties in central and western Kansas, and do so as a member-owned cooperative. The essence of cooperative ownership is the allegiance to only one stakeholder – the customer. We never find ourselves walking the tightrope between maximizing value to shareholders while minimizing costs to customers. Our owners and customers are one and the same, and do necessarily share common goals relative to the service a utility provides. Any margins generated through utility operations are returned directly to the customer or to the maintenance and development of the utility to benefit the customer. In short, we are a servant to only one master.

A substantial portion of our service territory is rural, with a low customer density. We believe we have been particularly successful in providing energy and value-added services to these rural customers, as well as those in the many towns or cities we serve, by providing reliable service at rates that allow the customer to obtain the maximum value for their energy dollar. The relatively low customer density of our system has required that we be creative in the management and operation of our system, and indeed we have lead the way for many other utilities in the areas of training and cross-functionalization of our employees.

While we see our niche as that of a delivery company, we fully recognize the need to provide the energy commodity to our customers, and to do so efficiently. And make no mistake about it, energy is a commodity and is traded as such. On the electric side of our business, we service approximately 35,000 retail customers, and at present provide all of the electric energy they consume. However, we have taken the approach that we can best serve them by owning only peaking generation capacity, and competitively purchasing the remainder of our needs for generating capacity and energy. This strategy has been quite successful for a number of years, and has allowed us to maintain electric rates that are among the lowest in the state. Even in the trying times of the recent years we have been able to provide energy at competitive rates, and have managed our supply portfolio such that we have adequate resources available at all times. We continue to look forward in the management of our supply portfolio to ensure that we can continue to provide this same level of service for years to come.

While the supply of electric energy has been challenging of late, the natural gas business has been even more difficult. Midwest's role as a delivery company is no more evident than in our gas service. We presently service about 44,000 customers, of which about 10% of those customers have exercised their ability to choose alternate gas suppliers. However, for the year 2000 other suppliers furnished nearly 60% of the total volumes flowing through our system directly to our customers. Obviously those customers, mainly agricultural and commercial, have found a value in the ability to select suppliers other than Midwest who best meet their needs in providing market-based pricing and services. While it is a particular challenge to plan supplies for a group who may elect to return to Midwest from their third party supplier, we believe we do so without burdening those customers who consistently purchase their energy directly from Midwest.

In all cases, for both gas and electric energy, we use a very competitive bidding process to select those suppliers we determine can provide us reliable capacity and energy supplies at the most favorable costs.

Midwest Energy, Inc.
Update on Utility Industry Issues
Joint House-Senate Utilities Committee
January 24, 2002

Again, the fruit of these endeavors is found in our rate structures and access to competitive supply alternatives.

As much attention as we pay to the energy supply side of the business, we are equally diligent in managing our delivery assets. Our joint focus on training and maintenance has paid dividends through the high degree of reliability of our service. Particularly considering the rural nature of much of our system, we maintain a very low customer outage rate. We have also taken advantage of our capabilities to operate rural systems efficiently to acquire distribution assets from other entities, and thereby improve the service and rates to those customers served from those systems. Our most recent acquisition, the gas distribution assets of KN Energy in western Kansas, is a case in point. We have demonstrated that this acquisition was good for both our existing customers and the customers formerly served by KN Energy.

As a large cooperative, we provide these utility services to our customers in a regulated environment. We have worked hard over the years to build and maintain a positive relationship with the Kansas Corporation Commission, and help them understand the unique aspects of our utility business. This has allowed us to continue to provide the services our customer/owners require, while meeting the standard of promoting the public interest.

In the interest of preparing for the future, Midwest Energy is proud to say that it has unbundled both its gas and electric bills into functional components. That is, we have separated the cost of the natural gas and power in the wholesale market from the cost of delivery. Among other things, we believe this is an important educational tool to help customers understand the coming industry changes.

II. Looking Ahead

We are committed to working closely with the Commission and the Legislature to formulate public policy that ensures that Kansans will continue to have access to reliable and affordable energy supplies in the very dynamic energy industry we now face. The challenges confronting utilities, regulators and policy makers are many, but generally center around ensuring adequate and safe energy supplies at both the regional and national levels. It is important that the Legislature, Commission and utilities take an aggressive forward-looking approach to meet the energy needs of Kansas.

Legislation enacted in the last session provided a foundation for construction of new bulk power facilities. That legislation provides incentives to both public utilities and independent power producers to build more generating capacity in Kansas. While a step in the right direction, frankly, there may be additional work to be done. We encourage the Legislature to view taxes from an incremental perspective. Yes, tax incentives mean that a power producer might pay something less than the full tax rate. But, overall tax collections will still be up if the incentive is for additional generating capacity. You know the adage, "50 percent of something is better than 100 percent of nothing." If the overall objective is to improve power supplies in Kansas, then make that the priority and tax collections secondary.

This same legislation also provided incentives for the construction of electric transmission lines. Again, that is good, but only a start. The incentives are limited to lines that will be connected to an electric generation facility, and operate at 230,000 volts or more. The transmission grid operates as a network, and it is possible that bottlenecks can occur at places other than power plants, and at lower voltages. Midwest Energy encourages the legislature to revisit this topic and provide incentives for new transmission capacity at least as low as 115,000 volts, and anywhere on the grid, not just lines connected directly to power plants.

Midwest Energy, Inc.
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January 24, 2002

We encourage the Legislature to take a close look at how utilities are regulated in Kansas. In short, it is a retrospective rather than forward-looking approach. Midwest Energy believes that both the Kansas Corporation Commission and the Citizens' Utility Ratepayers Board do a good job of fulfilling their statutory mission. Unfortunately, that mission is focused on reviewing the past and penalizing utility companies if results are not ideal. In changing times we believe that regulatory and watchdog boards should be chartered with making sure utilities are adapting for the future. That won't happen as long as utilities operate conservatively because there is a high likelihood of second-guessing regarding the prudence of past actions. Again, we are not faulting the KCC or CURB for doing their current job well, but we believe the position description needs to change if Kansans are to have the reliable and economical energy supplies they will need in the years ahead.

A simple example of a policy change that can realize this goal is the use of a prospective test year for ratemaking rather than a historical test year, or the latest 12-month period. The historical test year forces us to assume that past relationships between costs, revenues and investments will remain unchanged. In today's world that assumption doesn't hold water. Even the current practice of adjusting for "known and measurable changes" in rate reviews does not fully equip the utility to move ahead. A better approach for dynamic times is the use of a forecasted test year. This is not a new concept, and in fact is used by the Federal Energy Regulatory Commission. We don't know any other business operating in a competitive environment that plans actions or sets prices based on what has happened in the past. Rather, successful business owners look to the future. There are other regulatory approaches such as performance-based ratemaking that will emphasize performance over hindsight. And there will clearly remain a place at the table for the KCC and CURB to protect the interests of ratepayers. You can help us move ahead rather than protect our flanks.

These concepts are particularly evident as we prepare to file for a rate adjustment with the KCC later this year. We are just now preparing the required analysis and schedules, and cannot yet predict even the direction of the adjustment, let alone the magnitude. It is worth noting that our last general electric rate case was completed in 1990, and on the gas side we last adjusted rates in 1995. Similarly, KN Energy, whose rates we adopted when we purchased their Kansas assets, last adjusted their rates in 1993. As a customer-owned cooperative, our only objective is to set rates that allow for the continued economic health of the company, and for the continued provision of reliable and valuable energy services. Of course, much more information about our rate filing will be available later this spring.

One of the more significant challenges facing an electric utility today is the development of regional transmission organizations, or RTOs. The FERC has continued to press forward with its vision of only a few regional organizations operating the high voltage networks in the country. Midwest Energy, Inc. is currently a member of the Southwest Power Pool (SPP), which has applied for approval to become an RTO; unfortunately the FERC has denied this request, and SPP is now negotiating a merger with the Midwest Independent System Operator (MISO), which was previously recognized as an RTO. While this may well benefit the region in the long term, there are several substantial concerns that we feel must be addressed. Chief among those is the definition used by the MISO of transmission; their regional tariff recognizes only those transmission assets that operate at voltages at or above 115,000 volts. In contrast, Midwest Energy, Inc. has a substantial investment in transmission facilities at 69,000 and 34,000 volts, both of which are already used to make wholesale deliveries to wholesale municipal customers. We will continue to press whatever regional entity assumes control of transmission assets to make this recognition, as the FERC has already done in approving our own transmission rates. The KCC may well play a role in this process, and even the legislature can get involved through a recognition that upgrades to transmission

Midwest Energy, Inc.
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Joint House-Senate Utilities Committee
January 24, 2002

service, even at voltages below 230,000 volts, are still necessary to delivery bulk energy supplies to communities and customers in western Kansas.

Finally, we don't normally make a big issue of the differences between cooperatives and investor owned utilities. But as noted earlier, Midwest Energy does not have to balance the interests of ratepayers and shareholders. The questions of "Who gets the benefit?" or "Who pays the costs?" do not apply. Rather, we can focus on the question of "Does it increase value for customers?" Current statutes recognize this. Electric cooperative members can vote to remove themselves from KCC rate regulation. But, Midwest Energy is not eligible because of its size, and natural gas cooperatives are not even considered. We will not advocate that Midwest Energy should be exempted from either electric or gas rate regulation. However, we are studying statutory changes that might be made to improve Midwest Energy's ability to focus on customer value and not be restricted by safeguards designed for investor owned utilities and their customers.

Thank you for allowing Midwest Energy to update the Utilities Committees of the House and Senate on issues of importance. We would be happy to discuss these issues with you further at your convenience. Please give us a call or stop by our operations when you are in Western Kansas.

Midwest Energy, Inc.
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