

Approved: March 7, 2003 *Carl D. Holmes*
Date

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:04 a.m. on January 14, 2003 in Room 526-S of the Capitol.

All members were present except: Representative Nile Dillmore
Representative Jerry Williams

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

Conferees appearing before the committee: Dave Holthaus, Kansas Electric Cooperatives
Bruce Graham, Kansas Electric Power Cooperatives, Inc.
Steve Miller, Sunflower Electric Power Corporation

Others attending: See Attached List

Chairman Holmes led the introduction of committee members and staff. He then distributed a list of committee rules and copies of conferee rules were distributed to those in attendance.

A list of bill topics for introduction was distributed (Attachment 1). Representative Sloan moved to introduce the bills as committee bills. Representative Kuether seconded the motion. The motion carried.

Chairman Holmes reminded the committee of the tour of the SBC facilities on Thursday, then outlined the proposed agenda for the session.

The committee recessed at 9:30 to join the Senate Utilities Committee for briefings.

Senate Utilities Chairman Stan Clark welcomed Dave Holthaus, Manager of Government Relations for the Kansas Electric Cooperatives. Mr. Holthaus briefed the joint committee on the background of the Kansas Electric Cooperatives, in addition to providing information about the member/owner cooperatives (Attachment 2).

Mr. Bruce Graham, Vice President of Member Services and External Affairs for Kansas Electric Power Cooperative, Inc. (KEPCo), addressed the joint committee. Mr. Graham stated that KEPCO is a generation and transmission utility that provides wholesale electricity and other services to 19 member rural distribution cooperatives (Attachment 3). They also have a six percent (6%) ownership of the Wolf Creek Generating Station.

Steve Miller, Senior Manager for External Affairs for the Sunflower Electric Power Corporation, spoke to the joint committee about the company's activities (Attachment 4). Mr. Miller detailed the 2002 operations performance and outlined the quality of service and rates in relation to industry standards.

Mr. Holthaus, Mr. Graham and Mr. Miller responded to questions from the members of the joint committee. In response to questions, Mr. Miller distributed a flow chart (Attachment 5) showing the company's restructuring.

The joint meeting was adjourned at 10:30 a.m.

Chairman Holmes allowed introduction of those in attendance. Representative Sloan spoke about the presentation that afternoon about KAN-ED. Chairman Holmes briefed the committee on energy issue activities he had been involved in during the past year.

The meeting adjourned at 10:44 a.m.

The next meeting will be Wednesday, January 15, 2003.

JOINT MEETING HOUSE AND SENATE UTILITIES COMMITTEES GUEST LIST

DATE: January 14, 2003

NAME	REPRESENTING
DAVE HOLT HAUS	KEC
MARK SCHREIBER	Westar Energy
XXXXXXXXXXXXXXXXXXXX	KCC
XXXXXXXXXXXXXXXXXXXX	KCC
TON CACHES	GBBA
Joe Duke	KCBPU
J C Long	AQUILA, INC.
Steve Miller	SUNFLOWER
Bruce Graham	KSPC
Whitney Jamron	KS Gas Service
Steve Johnson	Kansas Gas Service
Mike Murray	Sprint
Mike Reed	AT&T
Susan Mahoney	SBC
Bob Jayroe	SBC
Chris Thompson	Federico Consulting
Barkley Mann	Hein Law Firm
Julie Fleon	Hein Law firm

**JOINT MEETING
HOUSE AND SENATE UTILITIES COMMITTEES
GUEST LIST**

DATE: January 14, 2003

NAME	REPRESENTING
Robert E. Krehbiel	KIOGA
Kim Gullett	LKUM
Cynthia Smer	GPK
Tom Day	KCC

House Committee on Utilities Bills for Introduction

1. Provide for establishment of renewable energy electric generation cooperatives (3rs0076)
2. Promote increased transmission system capacity
3. Remove sunsets on provisions for pass through of utility security and right-of-way costs
4. Provide for energy performance contracts for state buildings
5. Update ASHRAE energy efficiency standards from 1989 to 1999
6. Alleviate liability for compliance with oil and gas regulations
7. Allow pass-through to recover of costs of compliance with environmental requirements
8. Modify the cold weather rule
9. Deregulate high speed Internet access/broadband service
10. Exempt real estate agents from no-call law
11. Exempt car salespersons from no-call law

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ATTACHMENT 1

Senate Joint Utilities Committee

**Testimony of Dave Holthaus
Manager, Government Relations
Kansas Electric Cooperatives, Inc.**

January 14, 2003

Good morning, Chairmen Clark and Holmes and members of both Committees. My name is Dave Holthaus, and I have with me today, Stuart S. Lowry, Corporate Counsel for Kansas Electric Cooperatives, Inc. I am Manager of Government Relations for Kansas Electric Cooperatives, Inc. (KEC), the statewide association of electric cooperatives in Kansas.

KEC has 27 distribution cooperative members that serve end-use customers at retail in Kansas. It also has two generation and transmission cooperative members, those being Kansas Electric Power Cooperative (KEPCo) and Sunflower Electric Power Corporation (Sunflower), both of which are present today and will be presenting to you. A copy of the KEC directory is included with my testimony that lists all of the KEC member systems and provides pertinent information about each system.

Kansas Electric Power Cooperative, Inc., (KEPCo), headquartered in Topeka, was incorporated in 1975 as a not-for-profit generation and transmission cooperative (G&T). KEPCo has 19 REC owner/members which provide retail electric and other services to approximately 100,000 meters or an estimated 300,000 consumers in the eastern two-thirds of rural Kansas.

Sunflower Electric Power Corporation is a generation and transmission utility organized in 1957 by 6 rural electric distribution cooperatives. Headquartered in Hays, Kansas, Sunflower is governed by a Board of Directors that is appointed to represent the interests of its six Member systems. Sunflower owns and operates six power plants, all of which are located in Finney County, near Garden City, Kansas.

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Some of you may be members of a distribution electric cooperative. These distribution electric cooperatives are member-owned and operated electric distribution utilities. They serve in single-certified territories established by the Kansas Corporation Commission. Each of the distribution cooperatives is governed by a board of trustees elected from among the membership. The board members establish the policy for the distribution cooperative and the day-to-day affairs of the business are handled by a general manager and a host of employees. The distribution cooperatives purchase most of their generation services from either one of the G&Ts or from Westar Energy. The energy is transmitted to delivery points throughout the state at which the distribution cooperatives receive service. From that point, the distribution cooperatives maintain the plant and equipment necessary to deliver the energy to end-use consumers.

As you can see from the accompanying fact sheet, the distribution cooperatives maintain many miles of line in the state of Kansas, but have relative few consumers located on those lines. The result is a lower than average customer density, that is, number of consumers per mile of line. Typically, municipal electric systems will have approximately 40 consumer per mile of line, investor-owned utilities will have approximately 32 consumers per mile of line, while distribution electric cooperatives in Kansas have 2.5 consumers per mile of line. The cooperatives serve about 20 percent of the end-use electric consumers in the state and provide service to approximately 80 percent of the land mass in Kansas in 102 of the 105 counties.

Most of the distribution cooperatives have deregulated from the jurisdiction, regulation and control of the Kansas Corporation Commission, as provided for in K.S.A. 66-104d. This statute allows the members of a cooperative to determine whether the electric cooperatives should be regulated by the KCC. If a cooperative deregulates, its rates, service rules, and regulations may be established by the board of trustees. The statute also provides for a review of

rate changes by deregulated cooperatives by the KCC should a percentage of the membership desire review by the KCC.

KEC provides a number of services to its member cooperatives, some of which are briefly explained in the brochure attached to this testimony. Of course, KEC provides assistance in the area of governmental relations at both the state and national level for the rural electric cooperatives in Kansas. Our members believe it is important to communicate with elected representatives on issues of importance to rural distribution utilities. As you are aware, the provision of electric service is regulated on a number of levels and there is, at times, the potential for conflict between the policy goals of state government and those of the federal government. This was most recently illustrated in the debate on the National Energy Bill last fall. Some provisions of the federal bill would have, if enacted, run counter to the policy directives of the Kansas Legislature, particularly in the area of renewable energy. We were gratified by the work of our Kansas congressional delegation and their staffers on this very important issue, and we were humbled to serve as the voice for Kansas rural electric consumers in that process. KEC also provides a number of other services for its members, including apparatus testing, substation testing and the testing of reclosers, regulators, meters and other devices; loss control and safety services, specifically, providing safety and training courses to enable employees to perform their jobs safely and efficiently; regulatory assistance with state and federal agency regulations; communications, including the publication of *Kansas Country Living Magazine*, a monthly magazine that is sent to the consumer members of KEC member cooperatives; and management consulting, including rate studies, finance and accounting assistance, and computer support. KEC also serves as the regional partner for the Touchstone Energy® initiative developed by the National Rural Electric Cooperative Association (NRECA). Touchstone Energy® is a national branding initiative designed to raise awareness of the services provided by electric cooperatives

across the country. Touchstone Energy® has also developed a series of service standards or benchmarks for use by electric cooperatives in order to better meet and exceed customer expectations.

Technology has had an impact on every business and electric cooperatives are no exception. A number of technological innovations have been implemented by electric cooperatives in Kansas in order to better serve member consumers. For example, Heartland Rural Electric Cooperative in Girard, Kansas, is installing a TWACS automatic meter reading system on the cooperative's distribution system. Now in the second year of installation, this AMR system is operational in three of Heartland's substations. This AMR system allows the cooperative to read its consumer-members remotely and also provides the cooperative with up-to-the-minute data on consumer usage. Brown-Atchison Electric Cooperative in Horton, Kansas, is also installing a similar AMR system.

The electric cooperatives also continue to lend support to job creation and economic development in rural Kansas. One way in which electric cooperatives assist in this process is through the use of the Rural Economic Development Loan and Grant Program administered through the Rural Development section of the U.S. Department of Agriculture. Rural economic development loans are typically administered through electric cooperatives by way of an application process. Rural electric cooperatives may borrow money available in the Rural Economic Development Loan and Grant Program and then re-lend the money to qualified applicants at zero-interest. The loans are typically secured by an irrevocable stand-by letter of credit issued by the business's hometown bank. This loan program enables start-up businesses requiring high initial capital investment and existing businesses desiring expansion the opportunity to gain access to lower-cost funds for a portion of their credit needs. During the past several years, the following economic development loans have been sponsored by electric

cooperatives in Kansas: A \$450,000 loan from Brown-Atchison Electric Cooperative in Horton to assist the Hiawatha Hospital in remodeling to increase its services to patients; a \$400,000 rural economic development loan for Nemaha-Marshall Electric Cooperative to assist Midwest Ag Services in the construction of a new feed mill near Seneca, Kansas; a \$400,000 rural economic development loan from Leavenworth-Jefferson Electric Cooperative, Inc., to assist MDDC, Inc., in the purchase of equipment used in the operation of an automated prescription drug dispensing facility in Tonganoxie, Kansas.

Thank you for the opportunity to testify today, and either I or Stuart will be happy to answer any questions you might have.

Utility Rate Comparison
(cents per kilowatt-hour)

	Residential			Commercial			Industrial		
	Muni	IOU	Co-op	Muni	IOU	Co-op	Muni	IOU	Co-op
Kansas	7.7	7.3	9.5	6.4	6.0	8.8	4.4	4.5	5.3
National	7.3	8.5	7.6	6.9	7.5	7.0	4.7	4.7	4.1

(Source: American Public Power Association)

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Kansas Electric Power Cooperative, Inc.

Testimony Before House Utilities Committee and Senate Utilities Committee January 14, 2003

*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 300,000 Kansans. Almost all of the distribution electric cooperatives in Kansas belong to either KEPCo, or SEPC (Sunflower) to provide generation and transmission service. A few operate independently of a G&T for energy services.

Generation Resources

- Generation owned by KEPCo:
 - Six percent of the Wolf Creek Generating Station which supplies close to 40 percent of KEPCo's baseload energy needs.
 - The 20 MW Sharpe Generating Station was completed and declared operational in June 2002. The Sharpe Station, designed as a peaking facility, ties together ten 2 MW diesel units to provide immediate generation for our members in times of high demand.
- KEPCo receives hydroelectric power resources from the Southwestern Power Administration and the Western Area Power Administration to meet approximately 20 percent of our energy needs.
- The rest of KEPCo's energy requirements are met through contracts with Westar, Aquilla, GreatPlains Energy, Sunflower 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.
- We are examining proposals from developers of renewable generation in Kansas to include these resources in our supply mix.



*KEPCo's Sharpe Generating Station
Dedication Ceremony, July 18, 2002*

Phone: 785.273.7010

Fax: 785.271.4888

www.kepco.org

P.O. Box 4877

Topeka, KS 66604-0877

600 Corporate View

Topeka, KS 66615

In June, KEPCo completed construction and declared operational the 20 MW Sharpe Generating Station. Located in Coffey County, near Wolf Creek, the ten 2 MW diesel units will provide immediate generation for our members and will be particularly useful in times of high demand, unexpected generation

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outages, and when most economical. KEPCo was the General Contractor for the project which also included some transmission upgrades and substation improvements. The project was completed in just seven months, a very rapid start to finish construction time due in part to efforts by the Legislature to streamline the process for construction of electric generation and reduce the cost for new facilities.

To take advantage of an evolving wholesale power supply market, KEPCo 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 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.

As mentioned above, the power supply markets are becoming more volatile. Ten-year contracts with stable prices have been replaced by short-term deals with fuel cost adjustments. However, membership in an organization such as KEPCo has served to insulate customers from such volatility. In fact, from 1998 through 2001, KEPCo saved its members nearly \$40 million by absorbing volatile generation costs, lower rates and returning capital credits. Unfortunately, we were forced to raise wholesale rates to our members in 2002, but even with the increase, our costs are still below KEPCo's average rate in effect in 1998, prior to a voluntary ten percent wholesale rate reduction.

KEPCo does not own transmission. We contract for high-voltage service from utilities that own these facilities. We do work with our member cooperatives on distribution system reliability, from the substation to the consumer, through improved engineering solutions, line maintenance, troubleshooting, and with the SCADA system which enables quicker response to outages.

KEPCo does more than just supply power. Our members support engineering, power quality, compliance and other services. In addition, KEPCo is dedicated to rural economic development. KEPCo and its members continue to be successful participants in USDA's Rural Economic Development Loan and Grant (REDLG) program. In 2002, \$1.96 million in zero interest loans were approved for five KEPCo Member projects that combine for a total investment of \$8.3 million and 88 jobs. Over the years, the REDLG program has loaned or granted KEPCo member projects nearly \$11 million and, when combined with the \$30.2 million in project private investment, results in a rural development impact of \$41 million. In addition, at least 672 jobs have been created by these projects.

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

By

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

January 14, 2003

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 to provide reliable wholesale power to the six rural electric cooperatives that own Sunflower. While we have many things to report, I will only focus on a few of those things I believe might be of interest to you. Those include Sunflower's:

- Operational performance in the last year,
- Corporate restructuring activities and finally,
- New coal-fired power plant project in southwest Kansas.

2002 Operations Performance—

Member mWh Sales were 1,725,489, which is nearly 3% better than in 2001. Non-member sales of 854,652 mWh were down 10% from the previous year making Sunflower's total sales down by 2%. Total power production in 2002 was 2,608,049 mWh, which was off 3% from our record established in 2001. However, production from Holcomb Station was our 5th best in 20 years of commercial operation.

The last statistic I want to share with you is our System Peak Demand. This is a calculation of the maximum of power demanded in our control area at any particular point in time. In 2001, our peak was 364 MW and it increased to 371 MW in 2002. This new peak meant that Sunflower's generating capacity reserve requirements increased to 427.

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 logged at similar-sized plants across the United States.

Reliability and Rates—

One member of the Senate committee asked that we report on our quality of service and

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rates in relation to industry standards. One of the most important standards used to measure reliability is a term known as "Equivalent Availability Factor." This represents that number of hours in a period when our Holcomb Station was available to serve the load demanded by our customers. In 2001, our EAF was 95.3%; in 2002, it was 91.2%. The decline this last year was due to the length of our scheduled maintenance outage last March and April. To put this in focus, the North American Electric Reliability Council average for generators of similar size was 82.38%, so you can see that our plant is indeed very reliable. I don't want you to believe that our customers were in the dark for 8.2% of the hours last year; this statistic simply reflects the amount of time when the unit was available for service.

In addition to the importance of reliability, Sunflower is well aware of our Member's sensitivity to the price of power. Through November, our average member rate was 4.35 cents per kilowatt-hour. While that is one tenth of a cent higher than last year, it is 41% below the price Sunflower charged for its power in 1985. Our 2003 forecast for Member rates reflect an increase of two tenths of one cent to 4.5 cents, primarily to fund our new corporate structure that I will discuss in a minute.

One last point I'd like to make about the quality of Sunflower's service to its Members is our involvement with rural development projects. Our colleagues at KEPCo taught all of us how to better serve our consumers by utilizing the USDA Rural Economic Development Loan and Grant (or REDLEG) program. Sunflower and its Members have been quite active in this area in the last few years by facilitating 19 projects with a capitalized cost of \$35 MM. RUS Administrator Hilda Legg noted at our restructuring closing that, "Those projects have created new jobs and meant employment opportunities were available to people who otherwise may have had to move away from their rural roots." She added that, "Several of these projects involved infrastructure financing at rates that allow communities to spend their tax dollars delivering services instead of paying interest." We're quite proud of the efforts co-ops across Kansas are making to help cities and counties buy new fire

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trucks, fund infrastructure needs of commercial companies, and even providing the financing for a new dentist in Leoti, Kansas. These initiatives help us add value to the service we all work so hard to provide our consumer/owners.

Corporate Restructuring—

Secondly, I mentioned Sunflower's corporate restructuring activities. As most of you know, we have been working with the Rural Utilities Service (RUS) for many years to restructure Sunflower's debt. I am more than a little pleased to be able to report to you today that we have, in fact, accomplished that feat. It took more than six years of concentrated efforts to complete and closed in Washington on November 26, 2002.

The restructuring involves the transfer of substantially all of Sunflower's assets to a newly created corporation, owned and controlled by the same six distribution cooperatives that own the "old" Sunflower. The new corporation assumed fixed debt obligations to the RUS and Sunflower's other creditors, as a substitute for Sunflower's prior contingent obligations. The transfer has been transparent to Sunflower's employees, vendors, customers and other constituents. The old corporation is no longer a public utility and was re-named Sunflower Electric Holdings, Inc., the new company is SEP Corporation d/b/a/ Sunflower Electric Power Corporation.

Previously, Sunflower owed more than \$900 million dollars on its assets. With the completion of the restructuring, that amount has been reduced to \$366 MM on a net present value basis. I've included a table below that summarizes the change in our debt structure, and I've included a somewhat more comprehensive summary in Attachment A.

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Changes in Sunflower's Financial Structure as of November 26, 2002				
OLD	AMOUNT	NEW	AMOUNT	NPV - 8%
A Notes @ 9% with fixed payment of \$36 MM/yr. (2016)	\$287,325,000	Unchanged (Mature in 2016)	\$287,325,000 (\$36,000,000/Yr.)	\$287,325,000
B Notes @ 9% - (contingent payments based on cash flow) (accrue interest and don't mature)	\$518,000,000	Secured Surrogate B Notes (mature in 2016) - (Includes \$2 for each \$1 paid feature)	\$89,900,000 (Payment total = \$44,950,000)	\$26,200,459
		Unsecured Bs (Mature in 2027)	\$15,600,000 (+) \$6,500,000 payment at closing	\$13,811,472
		Residual Value Note (balloon payment due in 2016)	\$125,000,000	\$39,636,933
C Notes - 0% (2019)	\$106,311,000	Holcomb 3 Notes	\$3,145,000 (contingent upon construction of Unit #3)	
Total	\$911,636,000		\$482,570,000	\$366,973,864

Sand Sage Power Project—

The last 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.

We first announced this project in August 2001 and have been working diligently to bring it to fruition since that time. I remember that last year we were asked, "Do you really think this plant will be built?" I've been asked that question countless times since we discussed this before you last year and our answer remains "yes." Let me tell you why.

We see the project as a four-legged stool. The legs on that stool represent the regulatory processes, the investors, the EPC agreements (the contractors), and finally the so-called "off-take" agreements with power purchasers. We've recently received the construction air permit from KDHE. We've secured an investor that is fully capable and willing to finance

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the entire project, and we're in the final stages of finalizing the EPC agreements at a fixed price that makes the power marketable. Unfortunately, I can't reveal the names of any of those firms today because of confidentiality agreements that are in place, but we are hopeful that those agreements will soon be modified to let us make further announcements. We are still on target toward financial closing in late 2003 with commercial operation in 2007.

The area where we're struggling the most is with the "off-take" agreements. Currently, we have twelve parties who have expressed significant interest in the project. In the beginning, our intentions were for the investor to own the entire project, but as we've worked with these prospects, four off-takers have expressed interest in owning a portion of the new plant. We have prepared investor packages for their review and are awaiting their further inquiry. Once again, I'm not at liberty to disclose names, but they are all regulated, load-serving utilities in the region.

I mentioned our struggle with the off-take agreements. The primary problem we're experiencing is transmission capacity. While certain improvements in the Kansas transmission system would help us move this power, a great amount of the change that is needed lies outside our Kansas borders. As most in this room know, that means dealing with regional power pools and regional transmission organizations (RTOs).

Sunflower currently belongs to the Southwest Power Pool (SPP) and is a provisional member of the Midwest Independent System Operator (MISO). Those are the entities that must study our transmission requirements and act in ways that cause new transmission to be built. That is not an easy task to accomplish.

Sunflower is currently evaluating which RTO to join and we have several objectives. First, we want to act in ways that will lower our Member's transmission rates. Generally speaking, that requires "postage stamp" pricing from the RTO. We desire this pricing

scheme so that we can be reimbursed for power transmitting over our lines. And finally, we want to make sure that our membership in these organizations gives us a position where we can have meaningful input into the decisions that are made that affect our system. In other words, we don't want to be overlooked in the governance scheme so that we are unable to affect the decisions that are made at the RTO level.

To the end, we are currently considering membership in TRANSLink, a for-profit independent transmission company being formed primarily through the efforts of Xcel Corporation. It has members in Wisconsin, Minnesota, Iowa, and Nebraska, and potentially in Kansas, Colorado, Oklahoma and Texas. If the Committees want to discuss this complex subject further, I would hope you would allow us to return with our "experts" to discuss these issues more fully. The point I wanted to make here today is that transmission issues are currently our largest challenge in the Sand Sage project.

Before I conclude I should add for those who may not be acquainted with this project that Sunflower will not own nor will we have any financial obligation where this project is concerned. Our existing assets are sufficient to cover our current loads. However, we will receive development fees and lease income in addition to the operation and maintenance revenue generated as our experienced workforce operates the new plant for the owners in the future.

According to an economic impact study prepared by Dr. Ralph Gamble, an economics professor at Fort Hays State University, the new plant will create a \$2.5 billion positive economic impact, in part by creating 1,600 jobs during the construction phase of the project. The Gamble study also predicts that 149 permanent new jobs will be created by the project in Kansas and that the continuing operation of the new plant will increase annual earnings throughout the state by \$7.3 million. We believe this transaction not only helps Sunflower continue to create jobs indirectly, but the new plant will also provide the economic engine for real growth in western Kansas for a long time.

I don't want to leave this subject, however, without pointing the fact that this project would be infeasible were it not for the property tax legislation advanced by your Committees several years ago.

The last thing I'd like to leave you with today is regarding our newest municipal customer. We are very excited about the addition of the City of Hugoton to our system. Hugoton was always an "electrical island" in that it was not connected to the national transmission grid, perhaps the last city of its size in the "lower 48" to be so isolated. Sunflower worked alongside Pioneer Electric Cooperative, our second largest Member, to get the city attached to the transmission system last summer. From all accounts, their residents are very happy with the reliability they now enjoy from their joining with others who depend on Sunflower and its Members for a reliable power supply.

I hope this 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.

ATTACHMENT A

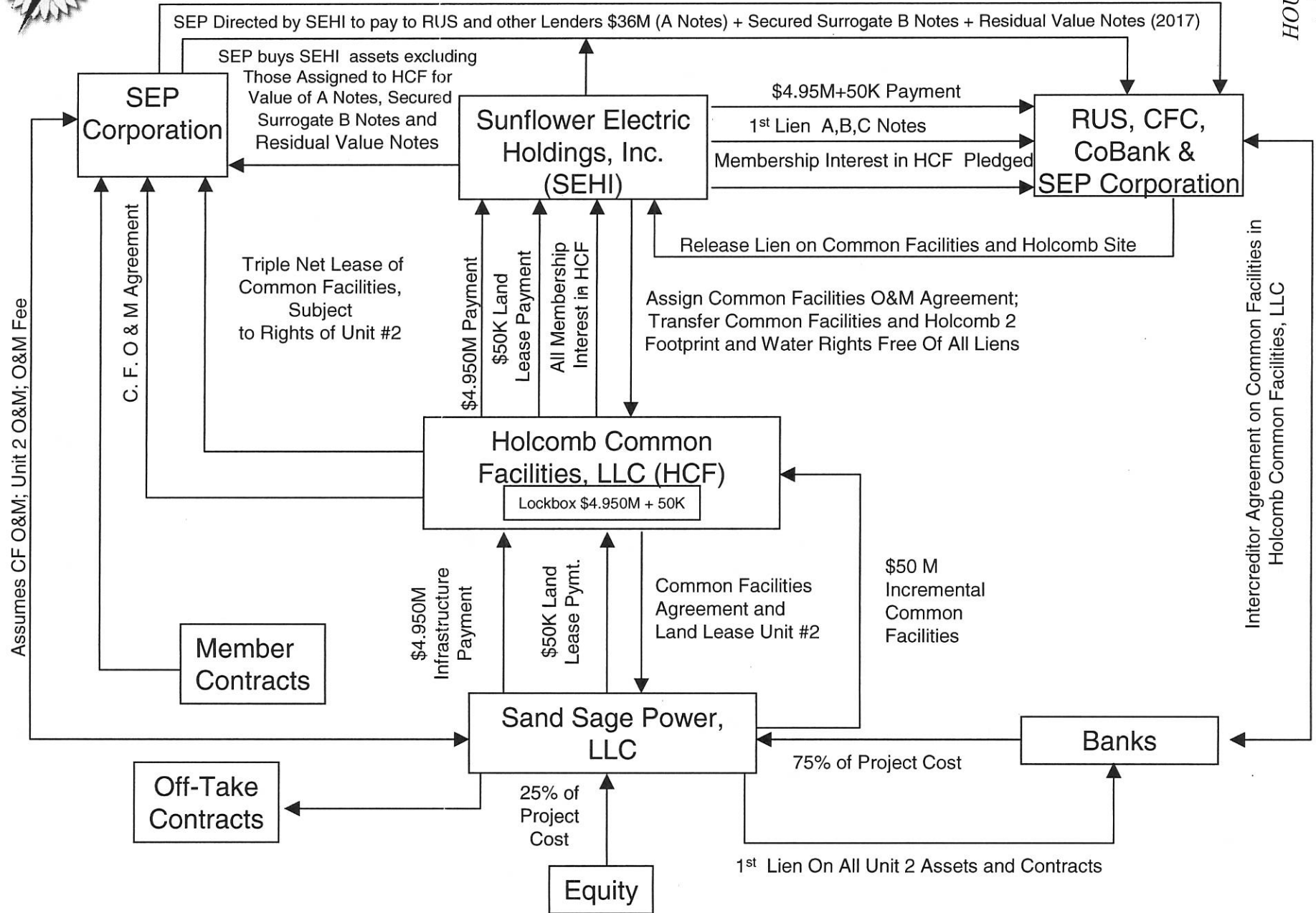
Major Points of Explanation Regarding Corporate Restructuring

- Effective with this transaction, the new organization (SEP Corporation) replaces the old Sunflower Electric Power Corporation as the public utility serving the power requirements of its six member cooperatives.
- The transaction has been approved by the federal government, the Kansas Corporation Commission and by each of Sunflower's Member Systems.
- The new financial structure is comprised of various components. Under the new agreement, the old "A" notes are repaid in the same fashion as before with annual debt payments of approximately \$36 MM. The new corporation, however, exchanged the old B & C notes (generally considered contingent debt obligations) for a new series of notes.
- Another key feature of the new financing includes a Residual Value Note that will require Sunflower to remit to the RUS \$125 MM or 46% of the market value of Holcomb Unit 1 after the A notes are paid in 2016.
- Because the A notes will have been fully paid at that time, Sunflower will in essence be debt free and will simply borrow that principal amount, if necessary, in 2016. Absent the \$36 MM cash requirements previously paid in "A" note payments, the term of that debt will likely be very short.
- The net effect of the transaction is one that will modestly increase Sunflower's cash requirements for the short term (as a result of payments to purchase the contingent debt), but replaces both the B & C notes, which eliminates what was an ever-increasing amount of debt owed by the corporation.
- One additional covenant in the transaction requires Sunflower to pay all C noteholders a total of \$3.145 MM in the event that Holcomb Unit #3 is built by 2021 and is either owned or operated by Sunflower.
- The amount paid to the secured B noteholders will total \$45 million through 2016.
- The unsecured B noteholders received payments at closing of roughly \$6.5 million. That amount was raised by our receipt of approximately \$6 million from an escrow previously used to support a letter of credit for CoBank. In addition to the amount received at closing, these noteholders will also receive roughly \$15.6 million in total future payments that are fully paid by 2027.
- The \$15.6 million (for the unsecured B noteholders) and the \$45 million for the secured B noteholders will be funded through a moderate rate increase recently approved by the KCC.



Sunflower and Unit #2 Structure

SEP Pays \$6.5 M and Issues New Unsecured A, Unsecured B and Holcomb 3 Notes to Other Lenders to Acquire all SEHI Unsecured A, B and C Notes



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ATTACHMENT 5