

Approved: March 7, 2003 Carl Dean Holmes  
Date

MINUTES OF THE HOUSE COMMITTEE ON UTILITIES.

The meeting was called to order by Chairman Carl D. Holmes at 9:07 a.m. on January 15, 2003 in Room 526-S of the Capitol.

All members were present except: 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:

Lee Allison, State Energy Resources Coordination Council  
Larry Berg, Midwest Energy  
Colin Hansen, Kansas Municipal Utilities

Others attending: See Attached List

Chairman Holmes welcomed Lee Allison, Chairman of the State Energy Resources Coordination Council, to the committee. Mr. Allison presented an overview/executive summary of the Kansas Energy Plan 2003 (Attachment 1). Mr. Allison also distributed a copy of the complete Plan (available from Legislative Research or on-line at [www.kansasenergy.org](http://www.kansasenergy.org)). Mr. Allison outlined the brief history of the Council, its development, membership, and tasks. Specific tasks include preparing a comprehensive energy plan (which is to be updated annually) and developing forecasts of Kansas energy production and consumption for the next five years. The Council prepared recommendations to start laying the foundation for a long-term solution to the state's energy problems. Those recommendations include five items for Council action, three items for legislative action, and seven priority study items. Additionally, twenty-eight items were included for future consideration. Mr. Allison responded to questions from the committee.

The committee recessed at 9:32 to convene a joint meeting with the Senate Utilities Committee with Senate Chairman Stan Clark presiding.

Chairman Clark welcomed Larry Berg, of Midwest Energy, who addressed the joint committee on the history of the company and outlined its current issues (Attachment 2). Mr. Berg told the committee that they had recently signed an agreement with Westar Energy to purchase approximately 10,000 customers in nine western and central Kansas counties. Additionally, they have filed for a natural gas rate increase of \$5.7 million and expect a Commission decision within the next few months.

Mr. Colin Hansen, Executive Director for the Kansas Municipal Utilities, updated the committees on the organization's activities (Attachment 3). Mr. Hansen explained that the two issues continue to be of interest to the membership are availability of transmission capacity and proper training and retention of key employees.

Additionally, David Martin, Manager of Government Affairs for Empire District Electric Company, provided information to the committees (Attachment 4).

The members of the House Utilities Committee adjourned at 9:58 a.m.

The next scheduled meeting will be Thursday, January 16 at 9:00 for a tour of the SBC building.

# JOINT MEETING HOUSE AND SENATE UTILITIES COMMITTEES GUEST LIST

DATE: January 15, 2003

NAME	REPRESENTING
Whitney Damon	Empire District Electric Co
<del>David Menden</del>	Empire District Elec.
Lee Allison	KGS / JERRC
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Colin Hansen	KANSAS NAT. UTILS. (KNU)
Scott White	KGS / KU Energy Research Center
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GUY SCHNEIDER	GABBA



# Kansas Energy Plan 2003

## Executive Summary



## State Energy Resources Coordination Council

[www.kansasenergy.org](http://www.kansasenergy.org)

HOUSE UTILITIES

DATE: 1-15-03

ATTACHMENT 1

# **KANSAS ENERGY PLAN 2003**

## **Executive Summary**

State Energy Resources Coordination Council

Compiled by  
Elizabeth Brosius and M. Lee Allison, Kansas Geological Survey,  
and Scott White, Kansas Energy Research Center,  
University of Kansas

Published by the Kansas Geological Survey,  
in cooperation with the  
Kansas Corporation Commission

[www.kansasenergy.org](http://www.kansasenergy.org)

The entire 2003 Kansas Energy Plan is available in pdf format at  
[www.kansasenergy.org/2003EnergyPlan.pdf](http://www.kansasenergy.org/2003EnergyPlan.pdf)

The entire 2003 Kansas Energy Plan also is  
available in hard-copy format at cost of  
reproduction as:

Kansas Geological Survey  
Open-file Report 2003-3

**KANSAS ENERGY PLAN 2003**  
**Table of Contents**

State Energy Resources Coordination Council Members (SERCC) .....	iii
External Committee Members .....	iv
Staff Support for SERCC .....	iv
Acknowledgments .....	iv
Executive Summary .....	1
Energy Production and Consumption Forecasts .....	1
Energy Recommendations .....	2

1-3

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1-4

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### Acknowledgments

Several KGS staff helped with the production of this report, including Jennifer Sims, who prepared graphics from a variety of sources; Marla Adkins-Heljeson, who prepared tables and edited parts of the report; John Charlton, who assisted with photography; and Dana Adkins-Heljeson, who provided data and tables from the KGS web site. Richard Nelson, Kansas State University, wrote the biomass section, and Jeff Roskam, ICM, Inc., contributed to the section on ethanol. Donna Johnson, Pinnacle Technology, and Jim Ploger, KCC, reviewed the section on wind energy. Appendix 3 is excerpted from Tim Carr's KGS Open-file Report 2000-57. Appendix 4 contains consumption forecast summary tables prepared by Soojong Kwak, KCC, and Michael Volker, Midwest Energy, Inc.



## Executive Summary

After nearly a century of being one of the nation's leading energy exporters, Kansas is now a net energy importer (Figure 1). Kansas's net energy balance is expected to worsen for the foreseeable future, with serious implications for the economic well being of the state. Fossil energy fueled the Kansas economy and provided substantial exports to other states for much of the 20<sup>th</sup> century. By about twenty years ago, Kansas's energy production and consumption were roughly in balance. This was due to a combination of declining oil, gas, and coal production, and increasing imports of coal for electricity generation and gasoline for transportation. However, since 1997, the net energy balance has shifted strongly to the negative side (Figure 1). By 2007, we estimate that Kansas's net imports will be 650 trillion Btu a year, which means that Kansas could be importing more than \$2.5 billion of energy to meet its demand.

The State Energy Resources Coordination Council (SERCC) is tasked with developing plans to increase the state's energy self-sufficiency and restore the state to being a net energy exporter. Specific tasks of the Council include preparing a comprehensive energy plan, updated annually. The Council is also tasked with developing forecasts of

Kansas energy production and consumption for the next five years.

Achieving energy self-sufficiency will likely require a combination of the following:

- extending the life of the state's oil and gas fields,
- increasing conservation and efficiency, and
- developing new sources of energy, of which the most promising in the near-term appear to be ethanol, wind, and coalbed methane.

### Energy Production and Consumption Forecasts

The Kansas energy balance continues to worsen, with production declining and demand increasing. Imports are increasing sharply to make up the shortfall. The state production and demand were about balanced from 1982 to 1997 (Figure 1). Since 1997, however, the state has become a net importer of energy. By 2007, the state is projected to need 650 trillion Btu more energy annually than it produces. Unless conservation and production increase dramatically, the shortfall will have to be made up from imports.

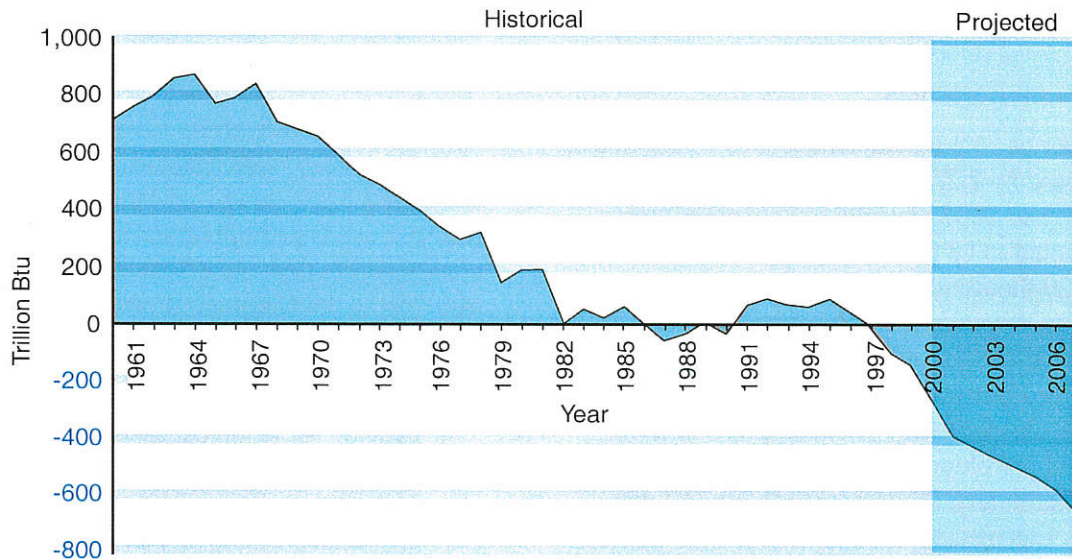


Figure 1—Kansas net energy balance, 1960 to 1999, with projections to 2007. Positive numbers show energy produced in excess of consumption (exports), while negative numbers show energy consumed in excess of production (imports).

1-6

## Production Forecasts

- Based on expected prices significantly above \$20 per barrel of oil (BO), Kansas oil production is forecasted to maintain current monthly rates of 2.9 million BO<sup>1</sup>, with a lower limit of 2.8 million BO, 2.7 BO million, and 2.6 million BO per month in December 2003, 2005, and 2007, respectively. Annual production for 2003, 2005, and 2007 would be 33.6 million BO, 32.4 million BO, and 31.2 million BO, respectively.
- Current monthly gas production of approximately 38 billion cubic feet (bcf) is expected to decline to approximately 37.5 bcf, 36 bcf, and 32 bcf per month in December 2003, 2005, and 2007, respectively, using a hyperbolic depletion curve. Annual production for 2003, 2005, and 2007 would be 450 bcf, 432 bcf, and 384 bcf, respectively.
- Electricity generation in Kansas is forecast to increase steadily over the next five years. In 2001, 44,707 million kilowatthours (kWh) were produced in Kansas. For the years 2003, 2005, and 2007, Kansas electricity generation is projected to increase to 47,642 million kWh, 50,252 million kWh, and 52,862 million kWh, respectively. Renewable energy, based primarily on wind, is forecast to nearly triple in production, though it will only produce 2% of the state's electricity by 2007.

## Consumption Forecasts

- Annual petroleum consumption is forecasted to increase by 2.25% to 3% annually. In 2003, 2005, and 2007, petroleum consumption is projected to be 85,582 thousand barrels, 89,920 thousand barrels, and 94,874 thousand barrels, respectively. Motor gasoline and distillate (diesel) fuel consumption are projected to increase annually by 0.1% and 0.44%, respectively. Consumption of LPG (liquid petroleum gas) is projected to increase 7.1% annually, while consumption of lubricants is projected to decrease by 0.2% annually.

- Natural gas consumption, which was 321 bcf in 2000 (the most recent data available), is projected to decrease 9.9% in 2002 and then increase by 1% to 1.4% annually through 2007. Gas consumption in 2003, 2005, and 2007 is forecast to be 300.4 bcf, 307.5 bcf, and 315.7 bcf, respectively.
- Total electricity consumption, which was 35,921 million kilowatthours (kWh) in 2001, is projected to increase to 39,068 million kWh, 41,317 million kWh, and 43,697 million kWh in 2003, 2005, and 2007, respectively.

## Energy Recommendations

The Council recognizes that the plan presented in this report will not immediately improve Kansas's energy self-sufficiency. The plan was prepared in a short time period with the full realization that State financial investment would not be available in the near term to implement more far-reaching, but potentially costly, strategies. The Council is making modest recommendations this year to start laying the foundation for an expected long-term solution to the State's energy problems.

### Recommendations for Council Action

- Establish a Transmission Task Force in Kansas to identify and recommend changes to improve the transmission network to support potential energy resources from wind or other emerging technologies and improve the flow of electricity within and outside Kansas.
- Establish a working group (composed of representatives from key state agencies, research universities, and the private sector) to identify specific research needs and opportunities to increase energy production and efficiency and that could also lead to development of new businesses (e.g., manufacturing wind turbines) in Kansas. Tasks include:
  1. Provide for technical assistance to independent petroleum operators, similar to the technical support given to agriculture, that will improve recovery of existing Kansas energy resources in an environmentally benign manner.

<sup>1</sup> The delay in posting oil and gas production data in Kansas averages about five months. For the purposes of this report, current production would be July 2002.

15

2. Develop information on the economic potential of coalbed methane in Kansas.
  3. Promote opportunities for employment in the oil and gas producing sector by developing curriculum that can be taught in the community colleges and vo-tech schools.
  4. Promote enhanced oil recovery (Tertiary) technology to recover residual oil left after water flooding.
  5. Explore sources of CO<sub>2</sub> in locations closer to mature producing fields to use in enhanced oil recovery projects, and explore feasibility of State's construction of CO<sub>2</sub> pipeline or financing of CO<sub>2</sub> pipeline owned by investors.
  6. Promote irrigation management practices designed to achieve maximum economic yield by reducing pumping costs. Adjusting pumping rates based on frequent monitoring of crop, soil, and weather conditions can provide water and energy savings with limited impact on yield.
  7. Expand technical assistance to industry. Existing programs, such as the Energy Extension Service at K-State and the Energy Analysis and Diagnostic Center at the University of Kansas could be enhanced to provide high-quality energy audits and specific technical assistance to Kansas industries seeking to improve energy efficiency. These efforts should be structured to avoid displacing private sector services.
- Establish an annual energy conference to discuss the state's energy issues among researchers, state and local policy decision-makers, industry, utilities, and the public.
  - Review energy programs in other states for their effectiveness and potential applicability to Kansas.
  - Implement an awards program, providing recognition (and monetary rewards) for important contributions in energy-efficiency achievement based on actual measured performance.

## Recommendations for Legislative Action in 2003

- Implement energy performance contracting for existing, state-owned buildings.
- Update 1989 energy efficiency standards with American Society of Heating and Air Conditioning Engineers (ASHRAE) 1999 standards for all new construction.
- Provide legislation that will alleviate punitive financial liabilities upon industry for actions taken to comply with state and federal regulations.

## Priority Study Items for 2003

- Analyze all incentives for renewable energy, including, but not limited to, net metering and Renewable Portfolio Standards (RPS), as part of a goal to increase the generation of renewable energy.
- Develop an educational program for the public (consumers and students) about energy issues, environmental impacts, and the initiatives to address those concerns.
- Make a study of the value of the petroleum industry to Kansas as a base for policy decisions.
- Study electric utility demand-side management programs related to time-of-day pricing.
- Investigate the market for low environmental impact "green" energy sales to interested consumers and utilities facing pollution abatement requirements.
- Encourage the state's electric utilities to participate and take a leadership role in all renewable energy groups and discussions.
- Investigate a systems benefit assessment/charge on all energy consumption and use proceeds to fund current energy-related program costs (e.g., weatherization, low-income heating assistance, development of renewable energy).

## Energy Issues for Future Consideration

The Council compiled over 175 recommendations from its membership and previous studies. Many were dropped from consideration as being obsolete or were combined with related issues. Some were

adopted as part of the current year's State Energy Plan. A complete listing of the remaining recommendations is included in the report as Appendix 2—Energy Recommendations for Future Consideration.

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1-10

## **Electric Industry Presentation**

### **To the Senate and House Utilities Committees**

**January 15, 2003**

Chairman Clark, Chairman Holms, Members of the Committees...My name is Larry Berg, and I'm with Midwest Energy in Hays, Kansas. With me today is Bob Helm, our Manager of Corporate Communications. I would like to visit with you today about the electric utility industry and the part that Midwest Energy plays in that industry.

#### **HISTORY OF MIDWEST ENERGY**

Midwest Energy, Inc. was formed in 1981 from the rare acquisition of an investor owned utility, Central Kansas Power (CKP), by an electric cooperative. CKP had been a subsidiary of United Telecommunications, Inc. (UTI) and its predecessors for over half a century. (United Telecommunications was more commonly known as United Telephone, and today is affiliated with The Sprint Corporation.) On October 19, 1977, UTI agreed to sell all its CKP stock to Central Kansas Electric Cooperative (CKEC).

*HOUSE UTILITIES*

DATE: **1-15-03**

ATTACHMENT **2**

On February 16, 1981, CKEC was merged into CKP, and the surviving corporation was renamed Midwest Energy, Inc., the same corporate entity that exists today.

Prior to 1979, CKP sold electricity, natural gas and water at retail to customers in Northwest Kansas. Service in some areas dated at least to the early 1920s. Much like many other investor owned utilities, the majority of its customers were in towns or along the transmission corridors linking the small towns. An important growth strategy was purchasing small, municipal distributions systems and generating plants. Power lines were built into rural areas only where there was significant load, such as the oil fields. Although CKP did not build many rural lines, it supported rural electrification by the neighboring cooperatives as a way to increase its wholesale market.

Midwest Energy grew via a series of acquisitions during the mid- to late 1980s. In 1986 the electric distribution system in the City of Ellis, Kansas was purchased, which included about 1,000 customers. Midwest Energy already provided natural gas service in Ellis. In 1988 the assets and liabilities of Great Plains Electric Cooperative in Colby, Kansas, were acquired. This brought nearly 4000 customers into the organization.

Midwest energy subsequently was able to reduce their electric rates by approximately thirty percent.

Two more natural gas systems, Producers Gas Equities and Rural Gas Equities, were purchased in 1990. While adding only 2000 customers, these acquisitions nearly doubled natural gas throughput. Their primary load was engine driven oil field pumping units that normally run around the clock.

Assets of three propane distributors were purchased in late 1995 and early 1996. These acquisitions included about 1,200 customers and 1.6 million gallons of annual volumes. We also mothballed 60 MW of ageing power plants and signed a very favorable contract for replacement power with Western Resources, now Westar Energy.

The company purchased another small natural gas company in 1997 and added another 500 customers in the towns of Wilson and Dorrance, Kansas. Then in April of 1998, the company purchased the Kansas natural gas distribution system from KN Energy, Inc. of Lakewood, Colorado. This was by far the largest single purchase in the company's history. We added nearly 31,000 new natural gas customers in western Kansas. With the acquisition, we added nearly 60 employees to our workforce and continue to hire as necessary to provide excellent customer service.

2-3



Including the KN acquisition, Midwest Energy now serves nearly 43,000 natural gas customers, and 35,000 electric customers. The company employs over 250 and has ten local offices in central and western Kansas.

The company also operates three companies through our subsidiary, Midwest Development, Inc. These include Midwest United Energy which provides natural gas marketing services in Colorado, Nebraska, Kansas, and surrounding states. WestLink Communications is a digital PCS telecommunications company with four local offices selling digital phones and services throughout the western third of the state, and as of the end of 2002, had over 6,000 telecommunications customers. The third is WestLand Energy. This company is an L.L.C and provides propane, leak checks on customer systems, safety information and contracting services to customers throughout western Kansas.

## **What We Do**

Midwest Energy is a customer-owned utility serving customers in all or parts of 42 central and western Kansas counties. As was stated earlier, the company serves approximately 35,000 electric customers. We purchase electricity from Jeffery Energy Center and Holcomb Station. We also purchase up to 10 megawatts of electricity from the Gray County Wind

2-4

Farm in Southwest Kansas. We are members of the Southwest Power Pool, soon to possibly become the new Midwest Independent System Operator in the newly deregulated energy industry. Our peak electricity demand was 231 megawatts in 2001. We operate a distribution system with over 9,000 miles of transmission and distribution line which equates to approximately 2.6 customers per mile of line. We are a very rural system, indeed.

The company also serves nearly 45,000 natural gas customers. We purchase natural gas from Williams Pipeline, Kansas Gas Service and Kinder-Morgan. We are responsible for nearly 3200 miles of transmission and distribution line, again, throughout central and western Kansas.

Our electric residential rates average around seven and a half cents per kilowatt hour, which compares favorably to the state average of 7.7 cents, and the national average of 8.5 cents. Our natural gas residential rates are approximately 70 cents per therm. This is the lowest in the state and is below the national average.

As mentioned previously, we operate ten customer service offices throughout the service area, which are staffed by 20 certified customer service representatives. They are the only certified Customer Service Representatives in the United States, having been certified through the

2-5

Midwest Energy Association CSR Certification Program. The Midwest energy Association is a large group of electric and natural gas companies throughout eight states in the central part of the country. We are accessible to our customers twenty four hours a day, seven days a week, via our toll-free phone number. We have extended customer service office hours and are available to customers from 8 a.m. to 6 p.m. Monday through Friday and from 8 a.m. till noon on Saturday.

We are very concerned about our quality of service. In 2002, we mailed 2738 service order contact surveys and marketing surveys. These surveys are sent to customers who actually have had work performed by our employees. We ask customers to answer yes or no to questions such as “Were we on time?”; “Was the property left in good condition?”; “Was the problem resolved?”; “Are you satisfied with the job?”; “Are you satisfied with Midwest Energy?” We received a 45% response rate, which is a tremendous rate for any of you who are familiar with surveys, and the overall satisfaction rate with yes answers was 98.4%. Of course, our goal is always 100%, but we’re very pleased with these results.

When we talk about customer satisfaction, we also must examine reliability throughout our electrical system. In 2002, our outage rate per

customer was 2.1 hours. Of course, this is, for the most part, weather driven and depends mostly on snow, ice and wind storms. Our goal is to remain under 2.5 hours per customer every year.

## **CURRENT ISSUES**

Midwest Energy filed for a natural gas rate increase of \$5.7 million, May 31, 2002, which, if approved, would represent an average increase of 14% per residential customer, which is necessary to cover the cost of service. The company's last rate increases date back to the late '80's and early '90's. We expect a decision from the KCC in the next few months.

We also filed for an electric rate increase of \$1.67 million, July 1, 2002, which, if approved, would represent a 2.7% change in retail electric rates. The requested amount would be used to upgrade aging infrastructure. The company's last electric rate increase took effect 13 years ago. We expect a decision from the KCC by the end of April, 2003.

In mid-October of last year, Midwest Energy signed an agreement with Westar Energy to purchase approximately 10,000 customers in nine western and central Kansas counties. The service area includes customers in Ellsworth, Rice, Pratt, Reno, Barton, Stafford, Edwards and Pawnee

counties. This acquisition will be good for all concerned. Customers currently served by Westar, including wholesale customers, will become owners of their energy delivery company. Wholesale customers will also receive patronage capital, just like retail customers. Midwest Energy's sole mission is to provide reliable, economic energy delivery.

The company has a local presence throughout the proposed new service area, and will provide the same locally based, high quality customer service to the new customers that our existing customers have enjoyed. In the short term, the opportunity exists to eliminate overlap in the service areas and better utilize resources. Over time, Midwest Energy will be able to improve reliability and reduce service costs to **all** customers. Westar will also be able to concentrate on urban areas and maintain good utility service for those locations. We filed the necessary paperwork with the KCC last November and expect a decision by the KCC by mid-summer of this year.

## **LEGISLATIVE ISSUES**

The main legislation that we were confronted with last year and opposed to was Senate Bill 547, also known as "The Rural Kansas Self Help Gas Act" which allows rural gas users to form a non-profit utility (NPU) for

the purpose of constructing their own gas distribution system. The main reason that Midwest Energy was in opposition of this legislation was the issue of safety. Although we were in opposition of this bill, we have been and will continue to work with the irrigators in southwest Kansas to procure a safe and reliable source of natural gas.

Some future issues we have identified include matters related to the merger of the Southwest Power Pool and the Midwest ISO. These issues have been and continue to be at the forefront of discussions related to the adequacy of transmission systems. This merger has implications on transmission rates, access and infrastructure construction. The Federal Energy Regulatory Commission (FERC) has also issued a notice of proposed rulemaking (NOPR) on its so-called standard market design (SMD) which will have far-ranging implications for the electric transmission business in general.

Midwest Energy, like most other utilities in the region, continues to look at expansion of wind generation facilities. Considerations involved in these discussions include pricing, energy availability/reliability, and economic implications to the region in general, and land owners in particular, importance of renewable resources in portfolio development,

adequacy and availability of transmission capacity, and stability impacts of additional wind generation resources.

Of increasing importance in the near future is rate design related to issues for utility services. Rate design – the way utilities price their services – sends important signals to consumers. Traditionally the focus of rate design has been on ensuring recovery of costs to serve each customer class. The biggest source of disagreement is on the relative share of costs that needed to be recovered from each class of customer and what rate of return each class of customer should provide the utility.

While none of that has changed, events in the market are reshaping not just the importance of recovering the “right” share of costs from each class of customers but by what pricing mechanism are the revenues recovered. Inappropriate rate design means poor price signals to consumers. That, in turn, means poor decisions by consumers. An example may be worthwhile:

A typical rate design may be to charge a fixed charge of \$5 per month and a variable charge of \$0.08 cents per kWh for electricity. However, the actual costs to serve that customer are \$30 per month fixed plus \$0.04 per

kWh. In fact, for a customer who uses 625 kWh per month the total bill would be the same with either rate design. However, as Distributed Generation (DG) technology has improved, that same customer may be able to generate half his needs with his own micro-turbine for a cost of \$0.07 cents per kWh. Because the pricing signal he is receiving is inappropriate, he makes a poor decision and installs a micro-turbine to self generate at least part of his energy needs. The result is cost shifting to other customers. On a larger scale – economists would call this “inefficiency” – a decrease in the overall economic well being of the state. This has huge implications to a rural cooperative like Midwest Energy, where new DG technologies may become viable alternatives to line extensions, repairs, or upgrades. Without appropriate pricing signals, the resulting choices will be suboptimal and in fact the viability of the grid of the future comes into question.

It is important to note that one of the reasons for not charging the full fixed costs through a fixed or “customer” charge for utility service is that by so doing would be harmful to low-income customers. This is simply not true. Midwest Energy will be submitting testimony in its current electric rate case under docket 03-MDWE-001-RTS that will include a study of low-income customers and will detail the impacts of higher customer charges on those customers.





# kansas municipal utilities

Testimony before the

## Joint House and Senate Utilities Committees

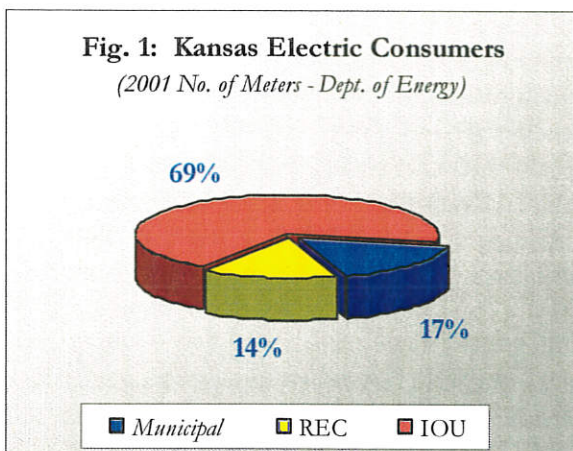
January 15, 2003

Colin Hansen

Executive Director

Kansas Municipal Utilities

Kansas Municipal Utilities (KMU) is the statewide association representing the interests of 159 Kansas municipal electric, natural gas and water utilities. Founded in 1928, KMU is currently celebrating its 75<sup>th</sup> year of service to member communities. These 159 member communities currently provide utility services to over one million Kansans.

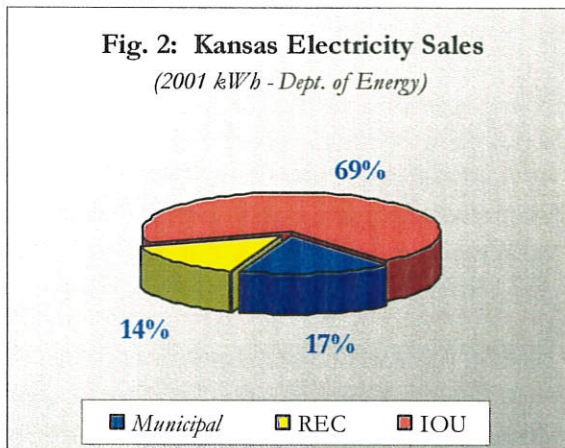


Today, there are 120 municipal electric utilities that provide service in Kansas. These utilities range in size from the Kansas City Board of Public Utilities, serving over 65,000 customers and most of Wyandotte County, to the City of Radium with a grand total of 22 meters and 47 residents. Overall, municipal utilities serve approximately 17% of the electric customers in the state.

Municipal utilities also account for approximately 17% of electricity sales in the state. A portion of this electricity is self-

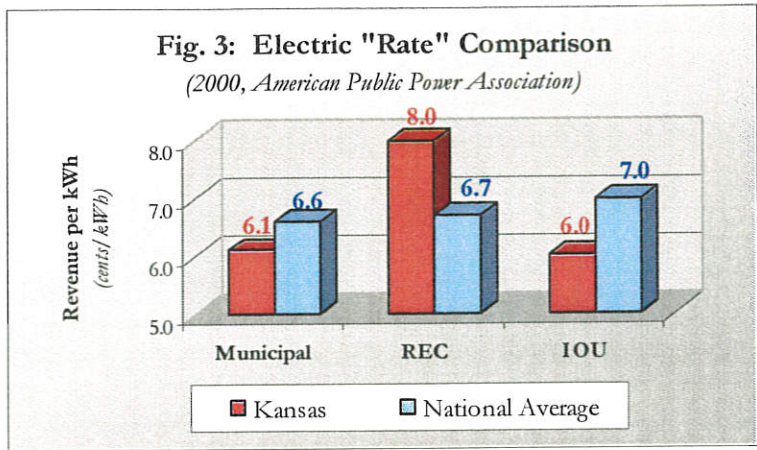
generated, with 63 of the 120 municipals owning generating capacity. However, the majority of this generation is comprised of diesel or natural gas peaking units with the community's baseload power typically purchased on the wholesale market. A number of municipal utilities receive an allocation of energy 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 arranging for transmission of electricity for redistribution among individual cities.



HOUSE UTILITIES

DATE: 1-15-03



Citizens in municipal utility communities enjoy relatively low electric rates. Residential "rates" (estimated by calculating revenue per kilowatt-hour in each customer class) average approximately 7.7 cents per kilowatt-hour for Kansas public power communities. Rates for all customer classes (residential, commercial and industrial

combined) average 6.1 cents per kilowatt-hour, significantly less than national averages. We feel that the low rates are due primarily to public power's not-for-profit status and efficient management and operations.

There are numerous issues that have been of concern to municipal electric utilities over the past few years. One of the most pressing has been that of utility security. KMU members have been trying to evaluate how to best protect their power plants and other utility infrastructure while also employing just good, plain common sense. I might note that KMU – through an American Public Power Association (APPA) grant developed by engineering subcontractors Black & Veatch – is currently finishing up a *Vulnerability Assessment and Mitigation Manual* that we believe will be the standard used by all public power systems across the nation.

Two other issues that continue to be of interest to the KMU membership are the availability of transmission capacity and the ability of small municipal systems to properly train and retain key employees. In general, municipal utilities in Kansas are considered "transmission dependent utilities," relying on larger utilities to provide much-needed transmission service. The small size and lack of transmission ownership by most municipal utilities cause great concern about their ability to arrange transmission service in the future, as lines become more and more strained. We continue to monitor activities at both the Federal Energy Regulatory Commission (FERC) – such as the recently issued Standard Market Design (SMD) rulemaking – and in Congress with great interest and would be supportive of efforts to increase the amount of transmission in the state.

A long-term trend stemming from the uncertainty about available transmission has been a movement of municipal electric utilities to develop their own community generation. By owning and operating their own intermediate and peaking units, public power systems are less reliant on scarce peak-day transmission capacity. We see this trend continuing, with such medium and small communities as Chanute, Russell, Mulvane, Sterling, Baldwin City and others adding significant generation.

Finally, our membership continues to be concerned about the retention of key utility employees – especially electric linemen. As with most small, rural communities, "brain drain" is a constant threat. Unable to compete with the employee salaries of larger utilities, KMU is in the process of initiating a new job training and safety program to train local workers to become active and effective municipal utility professionals.



Testimony of David E. Martin,  
Manager of Government Affairs,  
Empire District Electric Company,  
Before the Joint Committee Meeting of  
Senate Utilities & House Utilities,  
January 15, 2003.

EMPIRE DISTRICT ELECTRIC COMPANY

I would like to thank the Utilities Committee Chairs, Senator Stan Clark and Representative Carl Holmes, and members of the Utilities Committees for this opportunity to brief you.

I am David Martin, Manager of Governmental Affairs, with Empire District Electric Co., located in Joplin, Missouri. Also with me today is Whitney Damron, who helps represent Empire here in Topeka. Always feel free to contact either of us if you have any questions regarding Empire and our position on energy issues.

I would like to give you some background about Empire and then what we see in the near future. First, a thumbnail sketch on our company.

EMPIRE BACKGROUND

1. Empire is a Kansas corporation, headquartered in Joplin, Missouri.
2. Last Spring, Myron McKinney, President and CEO retired and Bill Gipson became Empire's new President and CEO.
3. Empire is the 4<sup>th</sup> largest investor-owned utility (IOU) in Kansas.
4. Empire serves about 10,000 customers in southeast Kansas, primarily in Cherokee County. Overall, Empire serves around 155,000 in southeast Kansas, southwest Missouri, northeast Oklahoma and northwest Arkansas. A service map is attached.
5. Empire is the 2<sup>nd</sup> largest generator of renewable energy in Kansas, with 16 MW of hydro generation.

HOUSE UTILITIES

DATE: 1-15-03

ATTACHMENT 4

6. Empire has the newest generation – a state-of-the-art, 500 MW gas-fired, combined-cycle unit. Ownership is Empire (300 MW) and Westar (200 MW). This facility is the cleanest and most efficient of new generation.
7. Empire's total generation capability is around 1,300 MW with 2% hydro, 43% coal-fired and 55% gas-fired generation.
8. Empire will bring on-line, this spring, another 100 MW of new gas-fired generation.
9. Customer energy growth is excellent, around 2.8% per year.
10. Empire's winter and summer peak-loads are almost the same, just over 1,000 MW, resulting in a high capacity factor of 55%.
11. Empire's Kansas electric rates, since July 2002, for a residential customer are 6.9 cents winter and 7.6 cents summer. The previous rates, dating back to 1994, were 5.7 cents winter and 6.2 cents summer.
12. Empire's proposed merger with UtiliCorp, now Aquila, was terminated January 2001.

### **EMPIRE'S OUTLOOK**

1. Empire wants to remain a regulated, vertically integrated, electric utility .
2. Energy growth is higher than the national average, so new generation will be necessary.
3. Empire's coal-fired generation is aging, and its replacement is our most pressing concern. By 2010, we'll have very old, coal-fired plants – Riverton will be 60 and Asbury will be 50 years old.
4. Changes in federal clean air law will be a significant influence on our decisions regarding future generation - refurbishment versus new construction.

# THE EMPIRE DISTRICT ELECTRIC COMPANY SERVICE AREA

4-3

-  Power Plant
-  Office
-  Service Ctr.

