

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Chairman Rob Olson at 9:00 A.M. on January 18, 2007 in Room 231-N of the Capitol.

All members were present except:

Carl Holmes-excused

Committee staff present:

Mary Galligan, Kansas Legislative Research
Dennis Hodgins, Kansas Legislative Research
Mary Torrence, Revisor's Office
Jason Long, Revisor's Office
Renaë Hansen, Committee Assistant

Conferees appearing before the committee:

Colin Hansen, Executive Director, Kansas Municipal Utilities
Don Gaeddert, City Manager, City of Larned, Kansas, and current KMU President
Rick Anderson, General Manger, McPherson Board of Public Utilities
Larry Holloway, Chief of Energy Operation, KCC
Timothy Carr, Kansas Geological Survey
Rex Buchanon, Kansas Geological Survey Tour

Others attending:

See attached list.

Hearing on:

HB 2032: Deregulation of municipal gas and electric utility's rates, charges and terms and conditions of service in area more than three miles outside municipality.

Colin Hansen (Attachment 1), Executive Director, Kansas Municipal Utilities, spoke in favor of **HB 2032**, which would include municipal utilities in a deregulation base process through the Kansas Corporation Commission, that would affect customers that are outside of the 3 mile radius of the city limits. It would remove a significant administrative cost of filing these cases.

Don Gaeddert, City Manager, City of Larned, Kansas, and current KMU President, (Attachment 2), spoke in favor of **HB 2032**.

Rick Anderson, General Manger, McPherson Board of Public Utilities, (Attachment 3), presented testimony in support of **HB 2032**. He noted this bill pertains to an area that amounts to only about 4% of their customers. The municipality ends up subsidizing the extra cost of getting electricity to those members outside the 3 mile radius. Unfortunately, the costs of filing the rate cases out weigh the costs they would recoup in the rate filing case.

Questions were asked by Representatives: Peggy Mast, Josh Svaty, Oletha Faust-Goudeau, Forrest Knox, and Tom Sloan.

Larry Holloway, Chief of Electric Energy Operation, KCC, noted it was in the late 1960's that the commission gained jurisdiction for those customers outside the 3 mile limit. The legislation proposed in the 1990s was not the same as the legislation in the 1960's. The 1990's legislation proposed to allow them to raise the rates, as long as the fee of those outside the 3 mile radius was the same as those in the radius.

A discussion ensued about the patrons outside of the city limits who do not elect city council members, and do not have a voice, but are still subject to the rates that are set.

Hearing closed on **HB 2032**.

CONTINUATION SHEET

MINUTES OF THE House Energy and Utilities Committee at 9:00 A.M. on January 18, 2007 in Room 231-N of the Capitol.

Timothy Carr, Kansas Geological Survey, (Attachments 4 and 5), presented testimony on the state of Oil and Gas in Kansas. He noted we have been in the oil and gas business since 1889 in Kansas. Mr Carr told of the specific historical trail of both oil and natural gas in the state of Kansas. The value decline of the natural gas in the Hugoton natural gas field. has been offset by increases in Wilson county and South Central Kansas. He noted coal bed methane's peak period takes about 2 years to reach a peak, but then it continues to produce at that rate for a period of time of about 10-12 years, compared to natural gas which reaches its' peak quickly and then tapers off in a more rapid manner.

The value to Kansans of oil and gas is similar to the value of the crops in Kansas. He noted that oil and gas is a very difficult business to track long term, as the price is so volatile because Kansas does not set the price. He noted that the Coal bed methane activity is showing a huge increase in the total percentage of production of oil and gas products overall in our state.

There is currently an effort for commercialization of Bio-energy Technology and he focused on the integration of the bio-ethanol and oil and gas. He noted that the theoretical maximum for production of ethanol is about 16 billion gallons / year before we run out of sources for the ethanol, with current production at 11.3 billion. Therefore, there is a big need for cellulosic alcohol to come on board.

The CO₂ that is put into the ground from the CO₂ flooding oil field flooding could eventually become a viable source of a carbon credit, based on proposed legislation in Washington DC, and perhaps states like California would be willing to purchase those credits. This process allows you to get another 20% oil out of the ground that you would not get without the process. This process would be a very clean and reasonable way to offset a coal fired energy plant's emissions.

Questions were asked and comments made by Representatives: Vaughn Flora, Carl Holmes, Forrest Knox, Oletha Faust-Goudeau, Rocky Fund, Tom Moxley, Terry McLachlan, and Rob Olson.

Rex Buchanon spoke to the committee on the Kansas Geological survey tour. This year they are going to the Wichita area June 6-8, 2007. One of the stops is an ethanol plant in Coldridge. Kansas.

Representative Tom Sloan moved to introduce a bill that would give incentives for small renewable energy generators. Seconded by Representative Vaughn Flora. Moved unanimously.

Representative Holmes announced he will be appointing a sub-committee on **HB 2035.**

The next meeting is scheduled for January 19, 2007.

Meeting Adjourned.



kansas municipal utilities

Submitted Testimony Provided the

House Energy and Utilities Committee

January 18, 2007

Colin Hansen

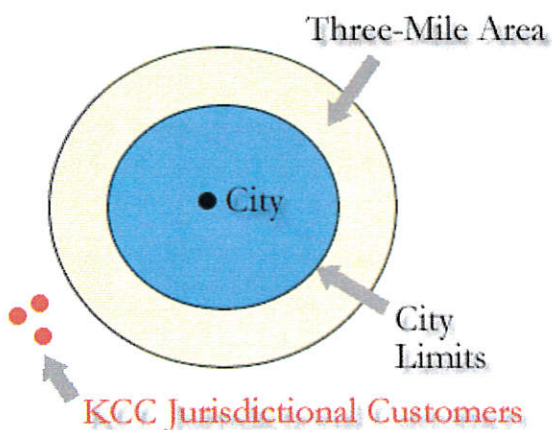
Executive Director

Kansas Municipal Utilities

House Bill 2032 – Deregulation of Municipal “Three-Mile” Customers

Under existing statutes, the customers of municipal electric and natural gas utilities located more than three miles outside of city limits currently fall under the jurisdiction of the Kansas Corporation Commission (KCC). Municipal utilities serving these customers are required to secure approval from the KCC through a formal rate filing should they wish to modify their utility rates, charges or terms and conditions.

KMU strongly supports House Bill 2032. The language in HB 2032 was originally drafted as a compromise between KCC staff and KMU members and would allow municipal electric and natural gas utilities with customers more than three miles outside corporate limits to locally control their rates and conditions. The legislation provides numerous safeguards for current customers. In summary, KMU believes the legislation would save significant time, effort and resources both for municipal utilities and the staff of the KCC.



What HB 2032 Does

In lieu of the KCC requiring a formal rate request and subsequent economic and engineering analyses from a municipal electric or gas utility for their “three-mile” customers, the municipal utility would instead have local control and jurisdiction over the rates of these customers. For municipal utilities, control and oversight of rates, terms and conditions fall under locally-elected city councils or commissions. In a handful of cases, municipal utilities are governed by a locally-elected or appointed board of public utilities.

As part of this compromise legislation, HB 2032 requires that the rates and charges for these rural “three-mile” customers not exceed the rates and charges of those customers within city boundaries, even though the cost to serve them is nearly always higher.

ENERGY AND HOUSE UTILITIES

DATE: 1-18-2007

ATTACHMENT 1-1

Safeguards

A number of safeguards are built into the compromise language to ensure that existing “three-mile” customers are not adversely impacted. Such safeguards include:

- “Three-mile” rates must mirror in-town rates
- “Three-mile” rates must not increase more than 10% in a given year
- Notice of any proposed changes in rates must be provided to “three-mile” customers
- Annual report submitted to the KCC
- A petition by 25% of a utility’s “three-mile” customers will trigger KCC investigation of municipal rates. KCC may order removal of unjust or unreasonable rates.

Customers Affected

In Kansas, 14 municipal electric utilities and 19 municipal gas utilities have at least one customer more than three miles outside their city limits (*see Tables 1 and 2*). In total, 3,174 municipal electric utility customers would be impacted by HB 2032. This represents just over one percent of all municipal electric customers in Kansas (and 0.2% of all electric customers in Kansas). The number of municipal gas utility customers that the bill affects is 1,281. A total of 4,455 customers would be impacted.

Benefits

The primary benefit of the legislation is to standardize the manner by which municipal utilities are allowed to charge rates to their customers. Removing the requirement of a formal rate filing to modify the rates of jurisdictional customers would alleviate a big administrative headache for many municipal systems. The time associated with filling out paperwork for these customers is the top complaint of the municipal utilities with three-mile customers, particularly if there are only a handful of such meters served by the utility.

In addition, KMU believes that passage of the bill would reduce the time and resources currently required of the KCC to review filings, monitor annual reports, and generally keep track of jurisdictional municipal utility customers. The 4,455 such customers in Kansas are a very small subset of the overall Kansas consumers for whom the KCC is responsible.

Implementation

KMU polled a few of its members with three-mile customers about how they might modify rates should HB 2032 be enacted. One municipal utility, Clay Center Public Utilities, indicated that they would simply lower electric rates for the 96 customers currently under KCC jurisdiction to match city rates. In justifying the rate decrease, the Superintendent of Utilities for the city noted that current reporting requirements were a

Table 1. Municipal Electric Utilities with KCC Jurisdictional Customers

	"Three Mile" Customers	Total Customers
Anthony	284	1,954
Ashland	4	705
Burlingame	14	603
Clay Center	96	2,801
Coffeyville	61	6,931
Larned	3	2,621
McPherson	1,182	8,312
Pomona	20	547
Pratt	46	3,966
Russell	231	3,301
Sabetha	87	1,723
Sterling	12	1,169
Wellington	99	4,352
Winfield	1,035	8,194
Total	3,174	47,179

“big enough headache that I’ll gladly lose revenue to do it.” He added that current statutes have kept the utility from even modifying the terms and conditions of the yard light rental program the city currently offers.

A second KMU member, the city of Winfield, noted that current statutes were standing in the way of the city offering wind energy to their three-mile customers. Last year, the city surveyed its customers and determined that approximately 5% wanted the city to purchase wind energy on their behalf and pay for it in a special rate class. This new “wind energy rate” will be considered for approval by the Winfield City Commission in February. Unfortunately, the rate will only be offered to those customers within three miles of Winfield city limits. Winfield’s electric utility director indicated that they would be unable to recover the significant cost the city would confront to formally secure KCC approval of the new wind energy rate structure on behalf of what is likely to be only a handful of customers and as a result would not offer the service to the three-mile customers.

Table 2. Municipal Natural Gas Utilities with KCC Jurisdictional Customers

	"Three Mile" Customers	Total Customers
Alma	42	456
Alta Vista	167	397
Auburn	346	905
Aurora	16	67
Burlingame	31	576
Eskridge	405	698
Garden Plain	18	291
Harveyville	1	138
Jamestown	32	188
LaCygne	39	497
Longford	51	47
Milford	60	253
Morland	26	116
Palmer	4	75
Pawnee Rock	1	152
Rozel	13	123
Spearville	7	333
Uniontown	3	149
Winona	19	113
Total	1,281	5,574

Conclusion

KMU believes that House Bill 2032 would be beneficial to its membership by removing a significant administrative burden on municipal utility management and personnel. In addition, the bill would allow municipal utilities to offer new services and rates that might currently be infeasible due to the cost of a formal rate filing. We believe the legislation might also benefit the Kansas Corporation Commission by removing the administrative headache that reviewing provisions for a small subset of municipal customers imposes on the agency.

Thank you for the opportunity to provide testimony strongly in support of House Bill 2032. Should you have any questions, please feel free to contact me at the phone numbers or email address below.



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 Kansas Municipal Utilities
 101 ½ North Main
 McPherson, Kansas 67460
 ph 620/241-1423
 fx 620/241-7829
 cell 785/221-5405
 email chansen@kmmunet.org
 web www.kmmunet.org*



kansas municipal utilities

Municipal Electric Utilities in Kansas

**Kansas Municipal Utilities (KMU) Members are denoted in red italics*

No.	Utility Name	Electric Sales (MWh)	No.	Utility Name	Electric Sales (MWh)
1	<i>City of Kansas City</i>	<i>2246293</i>	60	<i>City of Chetopa</i>	<i>10586</i>
2	<i>City of Coffeyville</i>	<i>662149</i>	61	<i>City of Haven</i>	<i>10423</i>
3	<i>City of McPherson</i>	<i>657874</i>	62	<i>City of St John</i>	<i>10352</i>
4	<i>City of Winfield</i>	<i>256237</i>	63	<i>City of Erie</i>	<i>10291</i>
5	<i>City of Garden City</i>	<i>191012</i>	64	<i>City of Kiowa</i>	<i>10149</i>
6	<i>City of Chanute</i>	<i>189159</i>	65	<i>City of La Crosse</i>	<i>10028</i>
7	<i>City of Iola</i>	<i>118058</i>	66	<i>City of St Francis</i>	<i>9505</i>
8	<i>City of Ottawa</i>	<i>115065</i>	67	<i>City of Ashland</i>	<i>9243</i>
9	<i>City of Wellington</i>	<i>114221</i>	68	<i>City of Dighton</i>	<i>9216</i>
10	<i>City of Augusta</i>	<i>68757</i>	69	<i>City of Arma</i>	<i>9151</i>
11	<i>City of Gardner</i>	<i>68043</i>	70	<i>City of Montezuma</i>	<i>8518</i>
12	<i>City of Pratt</i>	<i>67824</i>	71	<i>City of Oxford</i>	<i>8247</i>
13	<i>City of Russell</i>	<i>66978</i>	72	<i>City of Altamont</i>	<i>8239</i>
14	<i>City of Colby</i>	<i>52778</i>	73	<i>City of Jctmore</i>	<i>8021</i>
15	<i>City of Goodland</i>	<i>49332</i>	74	<i>City of Wathena</i>	<i>7830</i>
16	<i>City of Kingman</i>	<i>45824</i>	75	<i>City of Burlingame</i>	<i>7791</i>
17	<i>City of Clay Center</i>	<i>45401</i>	76	<i>City of Mankato</i>	<i>7775</i>
18	<i>City of Holton</i>	<i>41500</i>	77	<i>City of Alma</i>	<i>7733</i>
19	<i>City of Beloit</i>	<i>41062</i>	78	<i>City of Stafford</i>	<i>7631</i>
20	<i>City of Larned</i>	<i>38368</i>	79	<i>City of Chapman</i>	<i>7135</i>
21	<i>City of Neodesha</i>	<i>38324</i>	80	<i>City of Pomona</i>	<i>7067</i>
22	<i>City of Wamego</i>	<i>37648</i>	81	<i>City of Sharon Springs</i>	<i>6835</i>
23	<i>City of Sabetha</i>	<i>36919</i>	82	<i>City of Troy</i>	<i>6761</i>
24	<i>City of Mulvane</i>	<i>35913</i>	83	<i>City of Elwood</i>	<i>5890</i>
25	<i>City of Girard</i>	<i>32291</i>	84	<i>City of Attica</i>	<i>5672</i>
26	<i>City of Burlington</i>	<i>29827</i>	85	<i>City of Mount Hope</i>	<i>5479</i>
27	<i>City of Osawatimic</i>	<i>29312</i>	86	<i>City of Udall</i>	<i>5291</i>
28	<i>City of Eudora</i>	<i>28058</i>	87	<i>City of Moran</i>	<i>4998</i>
29	<i>City of Hugoton</i>	<i>27975</i>	88	<i>City of Enterprise</i>	<i>4861</i>
30	<i>City of Fredonia</i>	<i>27045</i>	89	<i>City of Cawker City</i>	<i>4705</i>
31	<i>City of Anthony</i>	<i>26129</i>	90	<i>City of Galva</i>	<i>4638</i>
32	<i>City of Norton</i>	<i>25710</i>	91	<i>City of Waterville</i>	<i>4340</i>
33	<i>City of Lindsborg</i>	<i>25213</i>	92	<i>City of Scranton</i>	<i>4217</i>
34	<i>City of Garnett</i>	<i>25091</i>	93	<i>City of Glen Elder</i>	<i>4204</i>
35	<i>City of Baldwin City</i>	<i>24756</i>	94	<i>City of Lucas</i>	<i>3711</i>
36	<i>City of Moundridge</i>	<i>23743</i>	95	<i>City of Glasco</i>	<i>3297</i>
37	<i>City of Seneca</i>	<i>21882</i>	96	<i>City of Centralia</i>	<i>3216</i>
38	<i>City of Belleville</i>	<i>21636</i>	97	<i>City of Holyrood</i>	<i>3124</i>
39	<i>City of Herington</i>	<i>21251</i>	98	<i>City of La Harpe</i>	<i>2838</i>
40	<i>City of Osage City</i>	<i>20983</i>	99	<i>City of Toronto</i>	<i>2542</i>
41	<i>City of Hillsboro</i>	<i>20039</i>	100	<i>City of Mulberry</i>	<i>2487</i>
42	<i>City of Hoisington</i>	<i>18308</i>	101	<i>City of Axtell</i>	<i>2419</i>
43	<i>City of Sterling</i>	<i>17307</i>	102	<i>City of Bronson</i>	<i>2161</i>
44	<i>City of Marion</i>	<i>16131</i>	103	<i>City of Blue Mound</i>	<i>1925</i>
45	<i>City of Minneapolis</i>	<i>15949</i>	104	<i>City of Prescott</i>	<i>1795</i>
46	<i>City of St Marys</i>	<i>15897</i>	105	<i>City of Iuka</i>	<i>1772</i>
47	<i>City of Osborne</i>	<i>14747</i>	106	<i>Town of Summerfield</i>	<i>1683</i>
48	<i>City of Cimarron</i>	<i>14741</i>	107	<i>City of Arcadia</i>	<i>1560</i>
49	<i>City of Oberlin</i>	<i>14303</i>	108	<i>City of Luray</i>	<i>1268</i>
50	<i>City of Meade</i>	<i>14082</i>	109	<i>City of Robinson</i>	<i>1191</i>
51	<i>City of Ellinwood</i>	<i>13932</i>	110	<i>City of Morrill</i>	<i>1190</i>
52	<i>City of Lakin</i>	<i>13621</i>	111	<i>City of Herndon</i>	<i>1045</i>
53	<i>City of Stockton</i>	<i>13130</i>	112	<i>City of Muscotah</i>	<i>828</i>
54	<i>City of Johnson</i>	<i>13012</i>	113	<i>City of Isabel</i>	<i>703</i>
55	<i>City of Lincoln Center</i>	<i>12969</i>	114	<i>City of Vermillion</i>	<i>685</i>
56	<i>City of Hill City</i>	<i>12821</i>	115	<i>City of Seward</i>	<i>630</i>
57	<i>City of Horton</i>	<i>12336</i>	116	<i>City of Savonburg</i>	<i>414</i>
58	<i>City of Greensburg</i>	<i>11283</i>	117	<i>City of Elsmore</i>	<i>391</i>
59	<i>City of Washington</i>	<i>10991</i>	118	<i>City of Radium</i>	<i>193</i>



kansas municipal utilities

Municipal Gas Utilities in Kansas

**Kansas Municipal Utilities (KMU) Members are denoted in red italics*

No.	Operator	Meter Count	No.	Operator	Meter Count
<i>1</i>	<i>City of Winfield</i>	<i>5,458</i>	<i>36</i>	<i>Severy Gas Co.</i>	<i>194</i>
<i>2</i>	<i>City of Chanute</i>	<i>4,593</i>	<i>37</i>	<i>City of Sylvia</i>	<i>192</i>
<i>3</i>	<i>City of Iola</i>	<i>2,950</i>	<i>38</i>	<i>City of Wetmore</i>	<i>181</i>
<i>4</i>	<i>City of Lyons</i>	<i>1,712</i>	<i>39</i>	<i>City of Pawnee Rock</i>	<i>176</i>
<i>5</i>	<i>City of Garnett</i>	<i>1,690</i>	<i>40</i>	<i>City of Denison</i>	<i>171</i>
<i>6</i>	<i>City of Osage City</i>	<i>1,412</i>	<i>41</i>	<i>City of Uniontown</i>	<i>160</i>
<i>7</i>	<i>City of Neodesha</i>	<i>1,371</i>	<i>42</i>	<i>City of Ford</i>	<i>151</i>
<i>8</i>	<i>City of Belleville</i>	<i>1,227</i>	<i>43</i>	<i>City of Hamilton</i>	<i>150</i>
<i>9</i>	<i>City of Louisburg</i>	<i>1,115</i>	<i>44</i>	<i>City of Harveyville</i>	<i>144</i>
<i>10</i>	<i>City of Hesston</i>	<i>1,074</i>	<i>45</i>	<i>City of Hardtner</i>	<i>141</i>
<i>11</i>	<i>City of Auburn</i>	<i>938</i>	<i>46</i>	<i>City of Cassoday</i>	<i>135</i>
<i>12</i>	<i>City of Humboldt</i>	<i>854</i>	<i>47</i>	<i>City of Lancaster</i>	<i>134</i>
<i>13</i>	<i>City of Halstead</i>	<i>850</i>	<i>48</i>	<i>City of Sharon</i>	<i>131</i>
<i>14</i>	<i>City of Moundridge</i>	<i>677</i>	<i>49</i>	<i>City of McFarland</i>	<i>128</i>
<i>15</i>	<i>City of Cheney</i>	<i>667</i>	<i>50</i>	<i>City of Walton</i>	<i>127</i>
<i>16</i>	<i>City of Burlingame</i>	<i>566</i>	<i>51</i>	<i>City of Sawyer</i>	<i>126</i>
<i>17</i>	<i>City of Alta Vista</i>	<i>547</i>	<i>52</i>	<i>City of Neosho Rapids</i>	<i>124</i>
<i>18</i>	<i>City of Eskridge</i>	<i>505</i>	<i>53</i>	<i>City of Rozel</i>	<i>123</i>
<i>19</i>	<i>City of Altamont</i>	<i>495</i>	<i>54</i>	<i>City of Partridge</i>	<i>120</i>
<i>20</i>	<i>City of LaCygne</i>	<i>485</i>	<i>55</i>	<i>City of Morland</i>	<i>118</i>
<i>21</i>	<i>City of Howard</i>	<i>472</i>	<i>56</i>	<i>City of Reading</i>	<i>116</i>
<i>22</i>	<i>City of Alma</i>	<i>469</i>	<i>57</i>	<i>City of Winona</i>	<i>111</i>
<i>23</i>	<i>City of Kechi</i>	<i>448</i>	<i>58</i>	<i>City of Coats</i>	<i>90</i>
<i>24</i>	<i>City of McLouth</i>	<i>424</i>	<i>59</i>	<i>City of Viola</i>	<i>80</i>
<i>25</i>	<i>Americus Gas Co.</i>	<i>375</i>	<i>60</i>	<i>City of Palmer</i>	<i>78</i>
<i>26</i>	<i>City of Attica</i>	<i>354</i>	<i>61</i>	<i>City of Windom</i>	<i>78</i>
<i>27</i>	<i>City of Burrton</i>	<i>353</i>	<i>62</i>	<i>Mapleton Gas Co.</i>	<i>70</i>
<i>28</i>	<i>City of Lebo</i>	<i>346</i>	<i>63</i>	<i>City of Abbyville</i>	<i>68</i>
<i>29</i>	<i>City of Spearville</i>	<i>328</i>	<i>64</i>	<i>City of Aurora</i>	<i>67</i>
<i>30</i>	<i>City of Mulberry</i>	<i>323</i>	<i>65</i>	<i>City of Isabel</i>	<i>65</i>
<i>31</i>	<i>City of Garden Plain</i>	<i>315</i>	<i>66</i>	<i>City of Havensville</i>	<i>60</i>
<i>32</i>	<i>City of Argonia</i>	<i>292</i>	<i>67</i>	<i>City of Agenda</i>	<i>57</i>
<i>33</i>	<i>City of Little River</i>	<i>263</i>	<i>68</i>	<i>City of Longford</i>	<i>47</i>
<i>34</i>	<i>City of Millford</i>	<i>251</i>	<i>69</i>	<i>Flint Hills Gas Co.</i>	<i>26</i>
<i>35</i>	<i>City of Jamestown</i>	<i>201</i>			

Testimony Submitted to the
House Energy and Utilities Committee
House Bill 2032 - Municipal Utility Three-Mile Legislation
January 18, 2007

Don Gaeddert, City Manager
City of Larned, Kansas

Chairman Holmes and Members of the Committee:

Thank you for the opportunity to testify today in support of House Bill 2032, the municipal electric and natural gas deregulation bill. My name is Don Gaeddert, City Manager for Larned, Kansas in rural Pawnee County. Larned currently operates municipal electric and water utilities and provides service to its 4,236 citizens.

In addition to being Larned City Manager, I also have the honor as serving as the 2006-2007 President of Kansas Municipal Utilities (KMU). KMU, as you are aware, is the statewide trade association for 170 municipal electric, natural gas, water, and wastewater utilities across Kansas. Legislation that would remove the significant administrative burden caused by current "three-mile" statutes has long been a priority of KMU and its membership and I appreciate the chance to stand in strong support of House Bill 2032 today.

The City of Larned currently has three customers that are located more than three miles outside of the city's corporate boundaries. Unfortunately, the location of these three customers puts the city under the partial jurisdiction of the Kansas Corporation Commission (KCC) and requires Larned to meet a number of regulatory provisions. One example is an annual financial report that the city must file with the KCC every year. This report creates a headache for city personnel while providing very little benefit to state regulators.

In addition, to modify the rates of these three customers requires a full regulatory filing at the commission. The time and cost to develop such a filing is very prohibitive, particularly for cities with very few jurisdictional customers. As a result, Larned has not touched the rates of these customers in the thirteen years I have been city manager. In fact, the table on the top of the following page illustrates fairly effectively that the difficult process of applying for a rate increase with the KCC discourages such application. As a result, the KCC jurisdictional customers go through lengthy periods during which they are most likely not paying their fair share of utility costs.

ENERGY AND HOUSE UTILITIES
DATE: 1-18-2007
ATTACHMENT 2-1

Larned City Rate Increases	Larned KCC Jurisdictional Customer Rate Increases
1991	1991
1990	
1984	
1979	
1978	
1976	
1973	
	1968
1963	
1960	

On behalf of the KMU Board of Directors, and my own council in Larned, I thank you for the chance to testify this morning in support of House Bill 2032. I strongly encourage the committee to pass this legislation that would do much to streamline and assist 31 municipal electric and gas utilities.

Testimony Before
House Energy and Utilities Committee
Deregulation of Municipal Gas and Electric Utility Rates
January 18, 2007

Rick Anderson, General Manager
McPherson Board of Public Utilities

Mr. Chairman and Members of the Committee:

I am Rick Anderson, General Manager of the McPherson Board of Public Utilities. The McPherson Board of Public Utilities, or BPU, provides electric and water utility service to over 14,000 residents in McPherson, Kansas. Our utility is proud to claim 234 megawatts (MW) of generation and one of the lowest electric rates in the country. In addition, the utility has been instrumental in creating and supporting the McPherson Industrial Development Company (MIDC), a quasi-governmental agency that has purchased and developed over 200 acres of land for industrial development in the city.

Currently, approximately 14% of BPU's customers are located more than three miles outside of McPherson city limits. Of the thirty-one municipal utilities that currently fall under partial jurisdiction of the Kansas Corporation Commission (KCC), I'm told that BPU serves the largest number of KCC jurisdictional customers with 1,182 such consumers.

I greatly appreciate the opportunity to appear before the committee today in strong support of House Bill 2032. The primary reason the utility supports this legislation is that it would greatly help to alleviate the significant administrative headaches currently caused by the three-mile statutes. For many years, BPU has complied with all the necessary filings, reports and inquiries triggered by our service to

ENERGY AND HOUSE UTILITIES

DATE: 1-18-2007

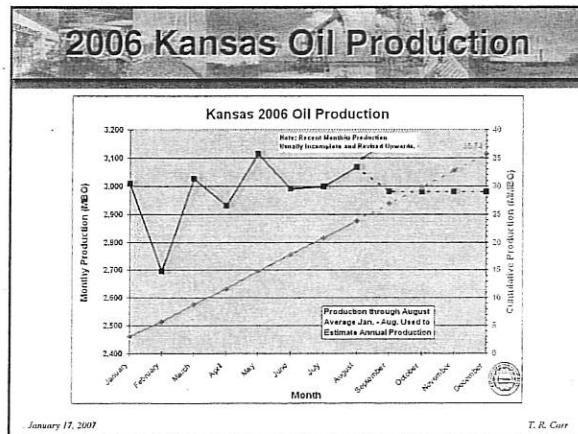
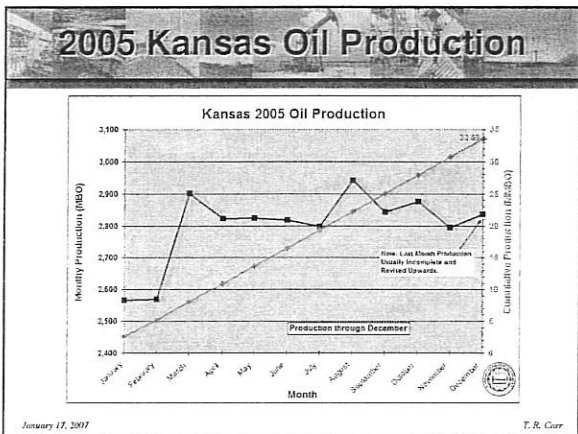
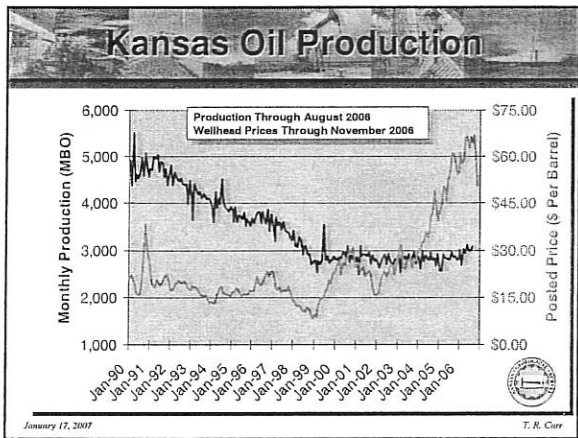
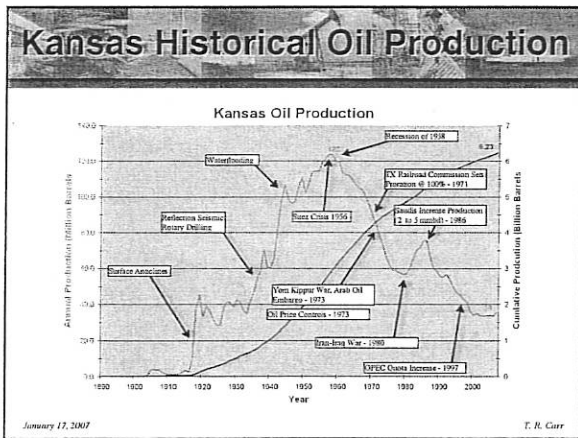
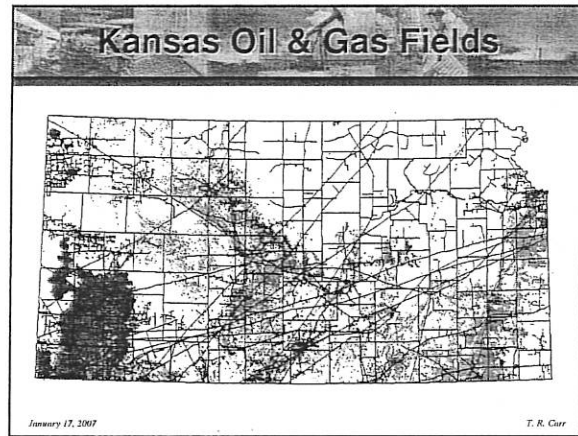
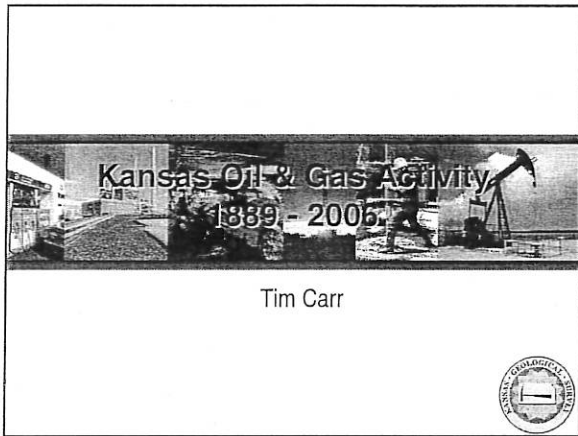
ATTACHMENT 3-1

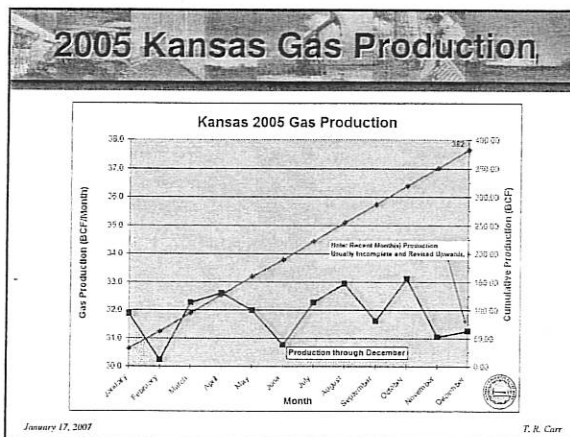
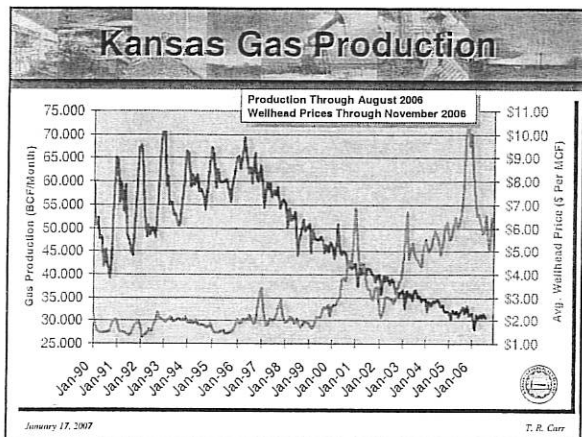
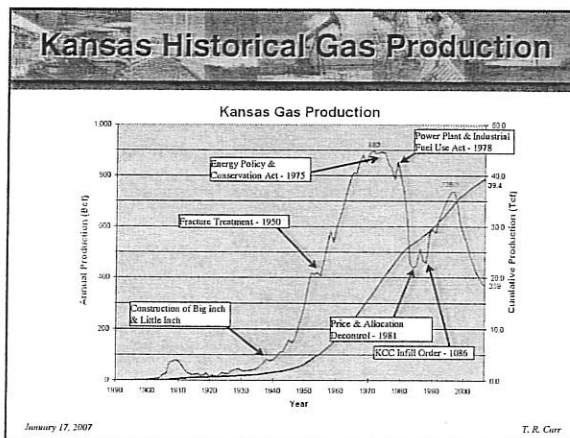
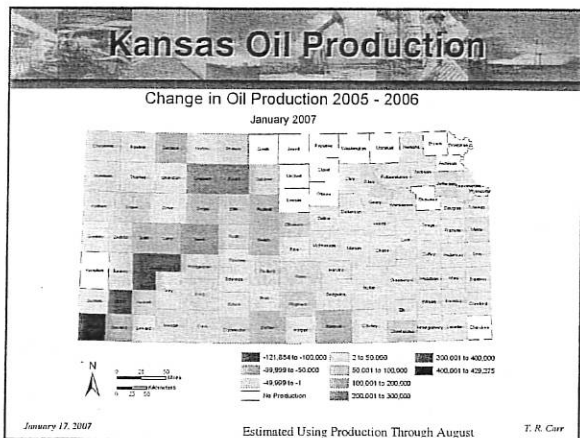
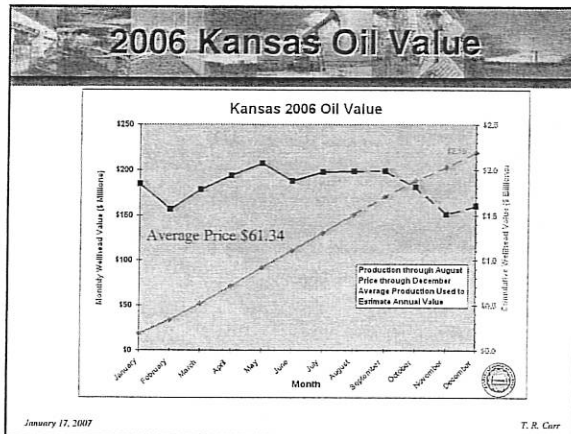
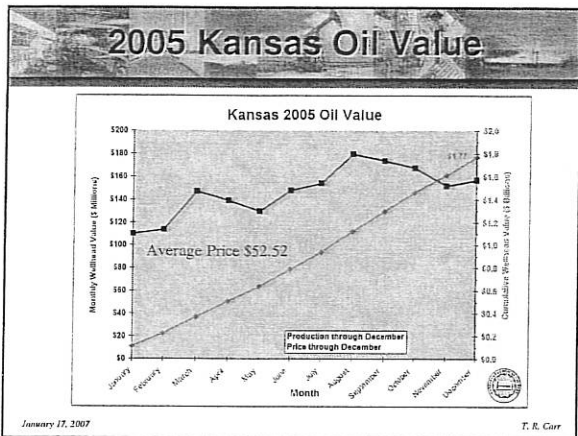
the three-mile customers. During that time, to my recollection, we have not had a complaint filed at the KCC regarding how we operate our utility or charge for electricity.

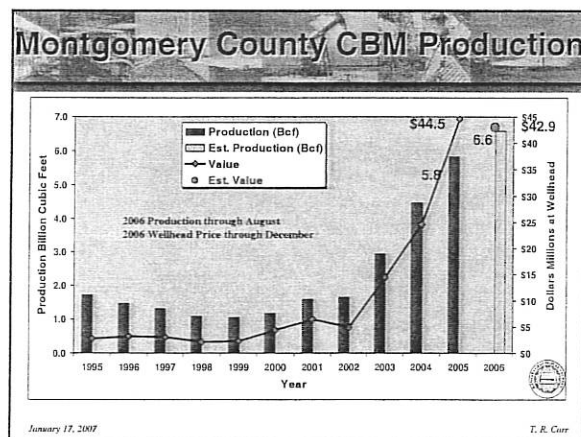
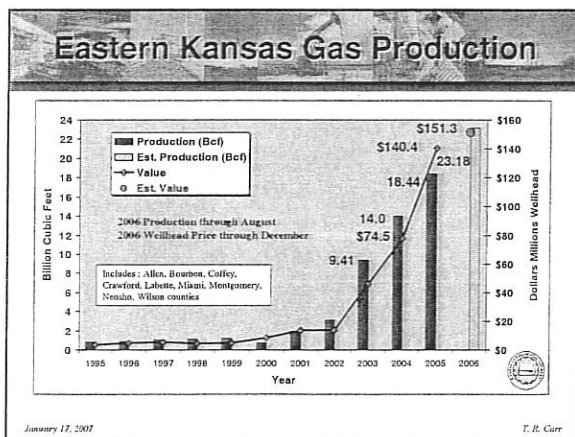
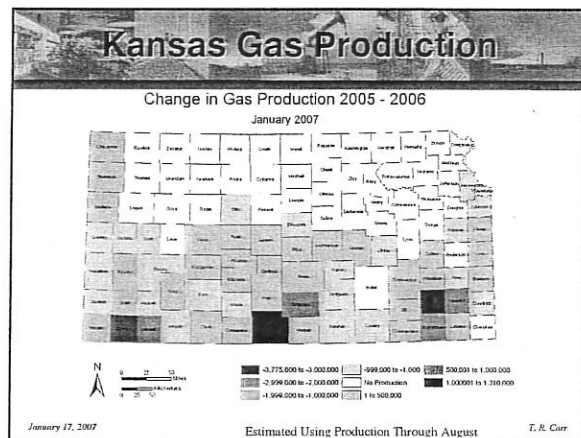
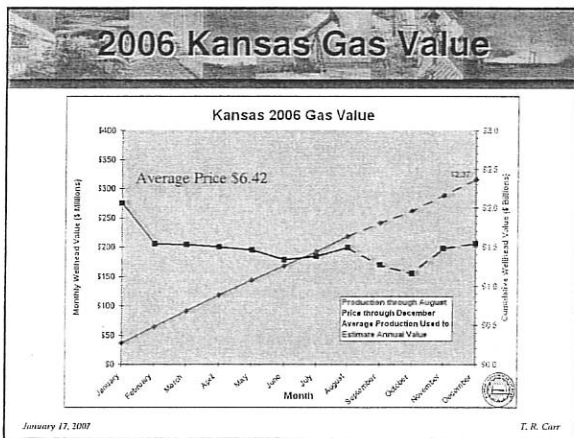
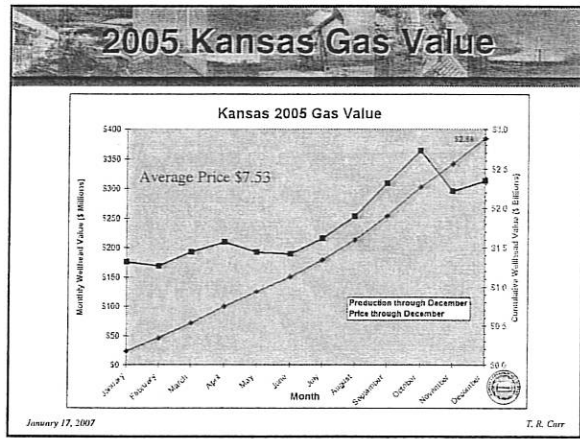
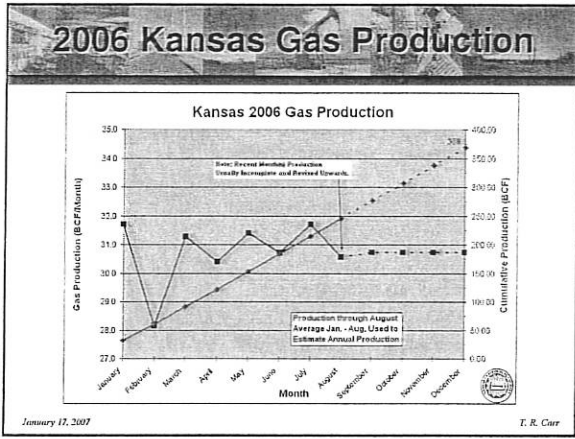
Filing the required information at the KCC for this subset of our customers is extremely cumbersome and time consuming. The administrative expense, in both staff time and funds to employ consultants and attorneys, in many cases discourages municipal utilities like ours from pursuing common sense business decisions. Should a rate increase become necessary, the cost of a full-blown rate case can be very high. Many times, such costs make these actions prohibitive for our municipal systems.

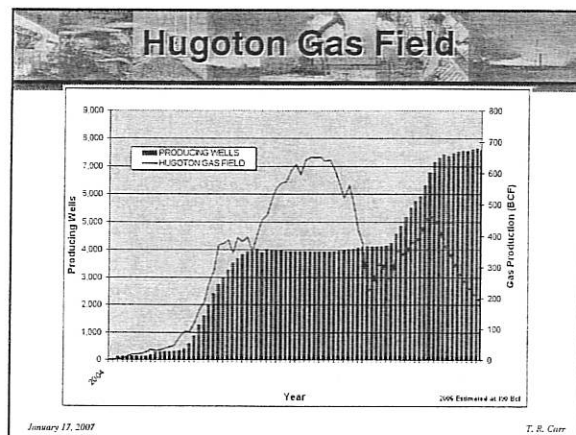
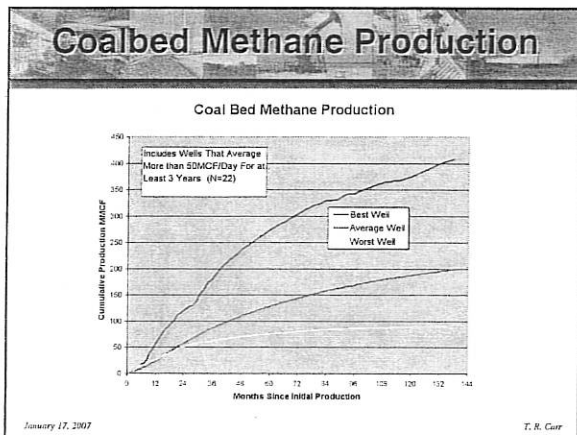
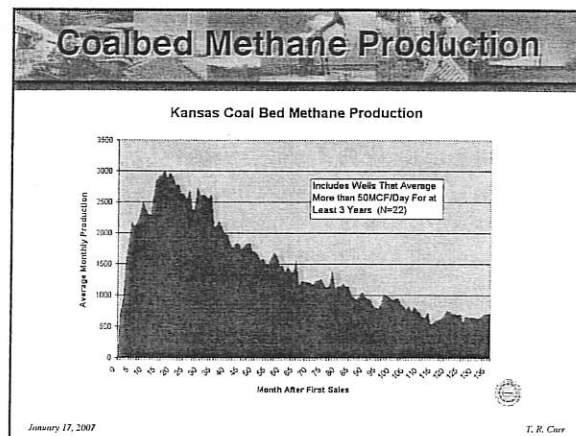
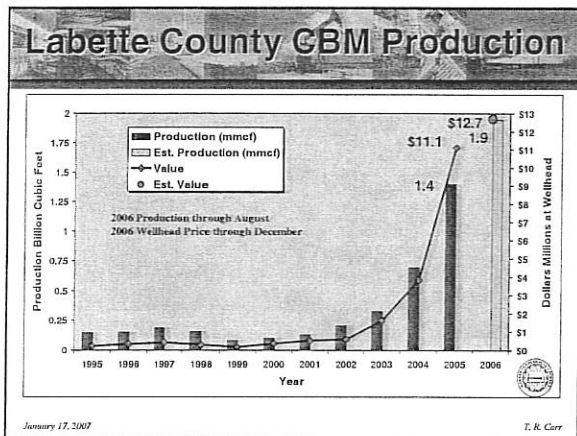
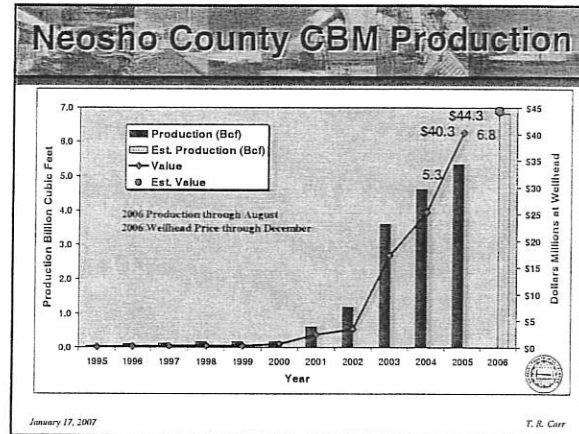
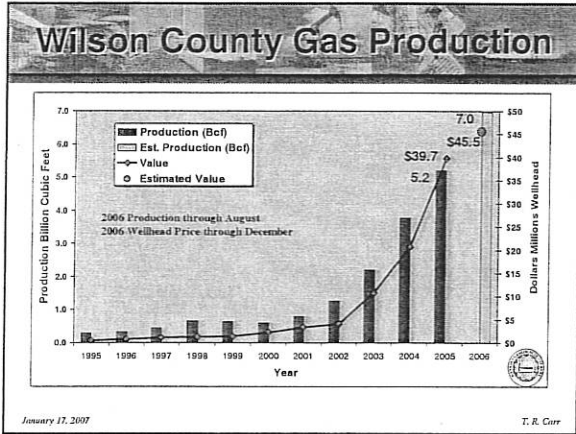
If this legislation be enacted, I do not envision BPU at all changing the terms and conditions in which it provides electric service to its customers. In fact, I believe that the KCC rules and regulations that govern how a utility provides service are an excellent template for how a utility should operate in the state of Kansas. Even if we as a municipal utility do not fall under the jurisdiction of the commission, BPU will continue to follow these guidelines to the best of its ability as it has to this date.

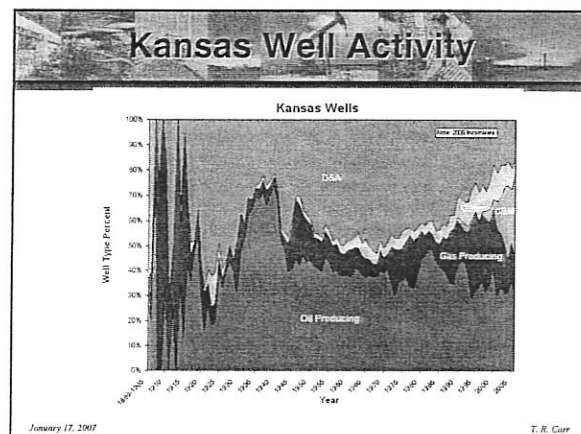
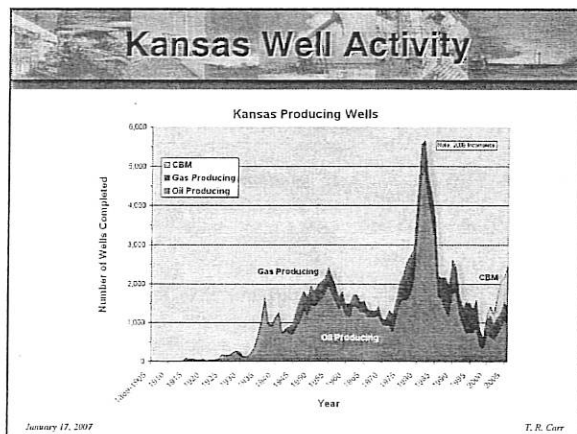
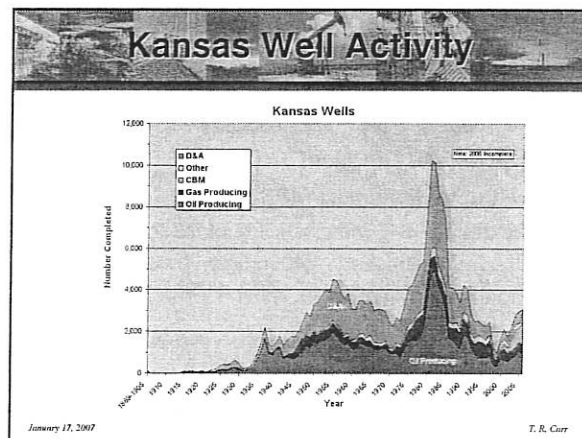
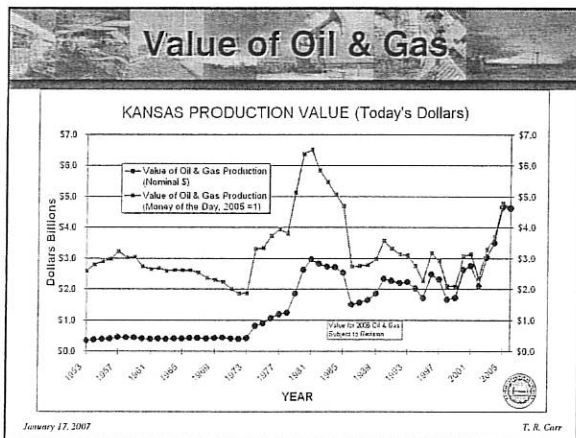
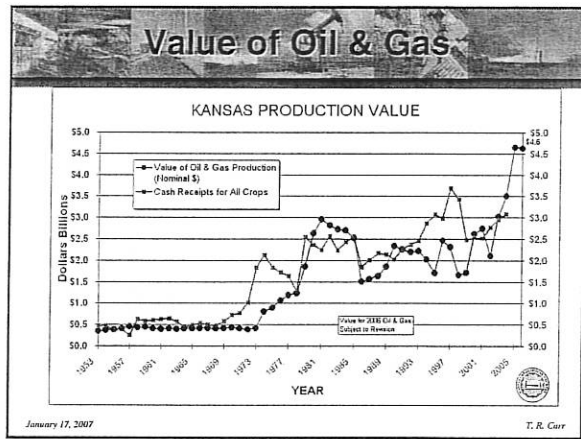
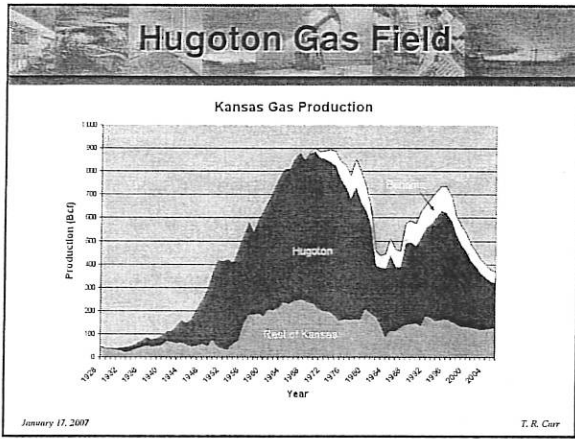
McPherson BPU and other municipal electric and gas utilities encourage the committee to pass House Bill 2032. Thank you again for the opportunity to appear before at this hearing and I would be glad to stand for any questions that the committee might have.

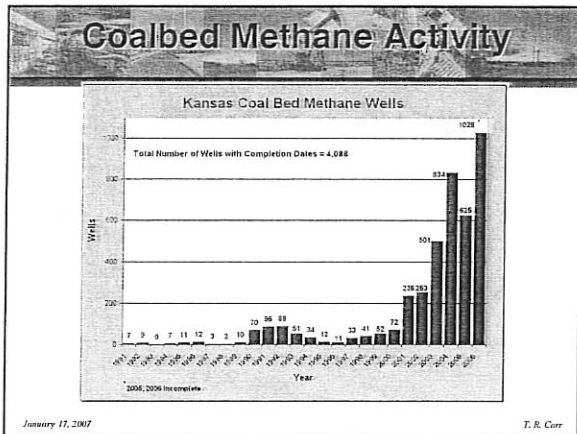












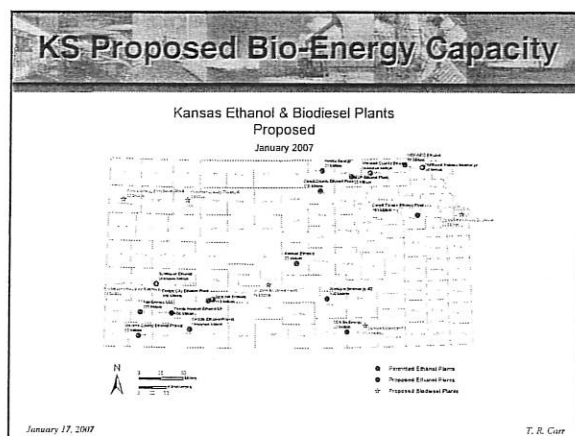
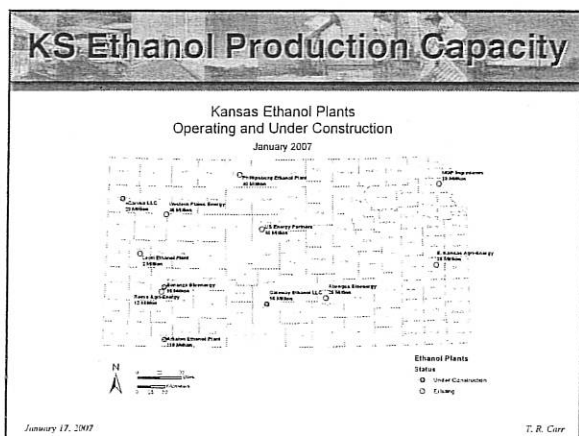
- ### Kansas Bio-Energy Initiative
- * Creation of National Center for Commercialization of Bio-energy Technology
 - * Develop Focused Research Center of Excellence in Integrated Bio-Energy and Energy Systems
 - * Increase Federal Dollars for Bio-Energy and Bio-products Research
 - * Encourage Collaboration among Private, Public, and Academic Players
- January 17, 2007 T. R. Carr

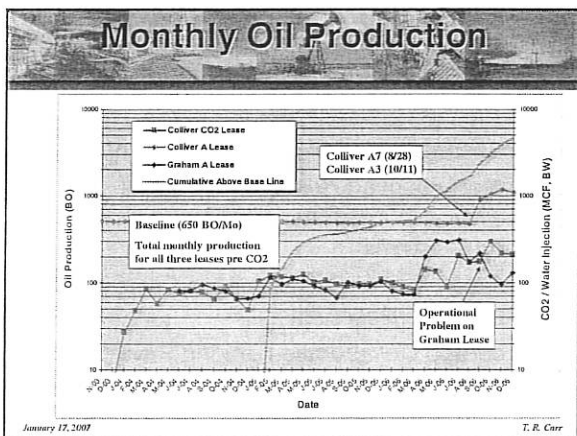
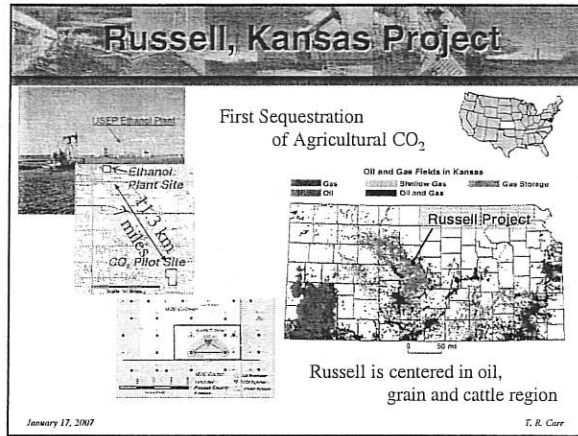
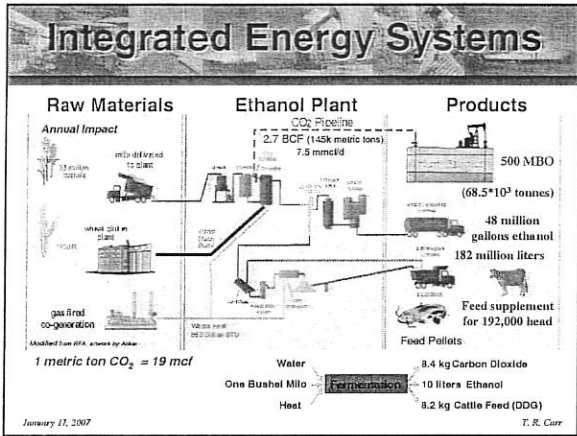
- ### Kansas Bio-Energy
- * #1 Wheat & Sorghum Producer
 - * #2 Livestock Producer
 - * #6 Ethanol Producer (485 mmg/y), 4.3% US
 - Operating - 245 mmg/y, 4.5 % of US total
 - Under Construction - 240 mmg/y, 4.1% of US total
 - Proposed Projects
 - Ethanol, 966 mmg/y
 - Biodiesel, 44 mmg/y
 - * US Ethanol Capacity 11.3 billion gallons/year
- January 17, 2007 T. R. Carr

US Ethanol Production Capacity

State	Operating	Under Construction	Total	Operating %
Iowa	1,791.5	1,535.0	3,326.5	51.40%
Illinois	774.0	381.0	1,155.0	67.10%
Nebraska	355.5	970.0	1,625.5	21.87%
Minnesota	541.8	240.5	782.3	69.27%
South Dakota	322.0	372.0	694.0	46.40%
Kansas	245.0	240.0	485.0	50.52%
Wisconsin	230.0	130.0	360.0	63.89%
Michigan	155.0	107.0	262.0	59.16%
Missouri	155.0	0.0	155.0	100.00%
Indiana	102.0	551.0	653.0	15.62%
Colorado	50.0	40.0	90.0	55.56%
California	87.7	0.0	87.7	100.00%
Tennessee	67.0	38.0	105.0	63.81%
Kentucky	35.7	0.0	35.7	100.00%
North Dakota	33.5	200.0	233.5	14.35%
New Mexico	30.0	0.0	30.0	100.00%
Wyoming	5.0	0.0	5.0	100.00%
Ohio	3.0	279.0	282.0	1.07%
Georgia	0.4	0.0	0.4	100.00%
Texas	0.0	370.0	370.0	0.00%
New York	0.0	154.0	154.0	0.00%
Oregon	0.0	143.0	143.0	0.00%
Arizona	0.0	55.0	55.0	0.00%
Washington	0.0	55.0	55.0	0.00%
US Total	4,850.0	4,850.0	9,700.0	50.00%

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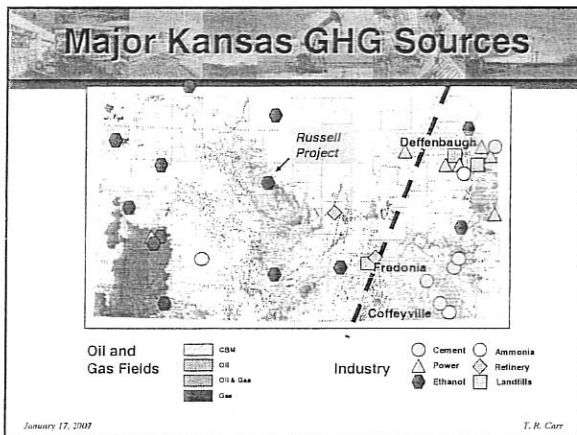




Cost of CO₂ Capture and Storage

Plant Type	Capture Technology	Cost of Capture (\$/t CO ₂)	Future Status: Cost of Capture and Storage
Shell	Pre-combustion	\$10-15	CC ₂ capture in Shell gas stream, requires additional energy requirements for solvent cooling
Shell	Pre-combustion	\$10-15	CC ₂ capture in Shell gas stream, requires additional energy requirements for solvent cooling
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Shell	Pre-combustion	\$10-15	CC ₂ capture in Shell gas stream, requires additional energy requirements for solvent cooling

January 17, 2007 T. R. Carr



Power Plant CO₂ Emissions

- A low efficiency (33%) 500 MW coal-burning plant will emit
4.4 billion kWh x 2.1 lb =
4.6 million tons of CO₂ per year
- A high efficiency (50%) 500 MW natural gas plant will emit
1.7 million tons of CO₂ per year

January 17, 2007 T. R. Carr

Ethanol CO₂ Emissions

- * A ethanol plant releases 6.624 pounds of CO₂ from fermentation per gallon produced.
485 mmg/y x 6.624 pounds
1.6 million tons of CO₂ per year
- * A ethanol plant releases 4.499 pounds of CO₂ from combustion per gallon produced.
485 mmg/y x 4.499 pounds
1.1 million tons of CO₂ per year

January 17, 2007 T. R. Carr

String of Pearls

January 17, 2007 T. R. Carr

Integrated Energy Systems

- * Use Waste Heat to Power Bio-refinery
- * Capture CO₂ at Bio-Refinery
- * Value Added Products
 - ◆ Feedlots (DDG's)
 - ◆ Other Products
- * Value-Added Sequestration
 - ◆ At 6mcf/barrel 485mmg/y ethanol = 4.6mmbo/y (194mmg/y)
- * Reduce Greenhouse Gases
 - ◆ Start to Offset a 500Mw Power Plant

January 17, 2007 T. R. Carr

Kansas Bio-Energy Initiative

- * Creation of National Center for Commercialization of Bio-energy Technology
- * Develop Focused Research Center of Excellence in Integrated Bio-Energy and Energy Systems
- * Increase Federal Dollars for Bio-Energy and Bio-products Research
- * Encourage Collaboration among Private, Public, and Academic Players

January 17, 2007 T. R. Carr

Contact Information

Timothy R. Carr
 Kansas Geological Survey
 University of Kansas
 Lawrence, Kansas 66047
 Phone: 785.864.2135
 Email: tcarr@kgs.ku.edu

January 17, 2007 T. R. Carr

Testimony before the House Energy and Utility Committee January 17, 2007

Written Summary of Testimony – Images as separate file.

All material will be available as Kansas Geological Survey Open-File Report
Online at <http://www.kgs.ku.edu/PRS/Info/webPubs.html> (available by next week)

Chairperson Holmes and Members of the Committee:

My name is Timothy R. Carr. I am Chief of the Energy Research Section of the Kansas Geological Survey, at the University of Kansas. I do not come as an advocate of any legislation before the committee, but to provide background on Kansas oil and gas production and initiatives to link oil and gas production to bio-energy and electric generation that could have a large potential on the Kansas economy and tax base. I will attempt to place the technical, environmental and economic aspects of these issues within a national, state and local perspective. The written testimony is only a brief summary of some of the points that we may discuss today. Please feel free to ask questions and lead the discussion to areas of interest.

Attached Power Point slides show Kansas oil and gas production with production and value for 2005 and 2006. In 2006 average oil production in the first nine months is greater than 2,900 MBO/month, which almost 100 MBO/Month more than average produced in 2005. In a number of recent months, reported production is bouncing around 98,000 to 100,000 barrels per day. This bodes well for continued increases in oil production during 2007. In 2006, Kansas is estimated to produce more than 35.7 million barrels of oil (MMBO), which up significantly from last year (33.9 MMBO). Kansas oil production has been constant or increasing slightly for more than 7 years (1999). Despite the recent increase, the state's production this year will fall far short of the record of 124 million barrels set in 1956. However, this is the longest and one of the few strings of annual increases in oil production. The last period of increased production was during the period from 1979 to 1985. In 2006 Kansas oil production will have an estimated value at the wellhead of \$2.2 billion almost \$400 million above last year (\$1.8 billion), which should continue the surge in the state's energy output and rural economy. The increase in value is a combination of increase in volumes and in price (\$52.52 vs \$61.34 per barrel)

In 2006, the value of Kansas gas production at the wellhead is estimated to decrease more than \$440 million this year to \$2.36 billion (\$2.8 billion last year). This is a combination of decreased price (\$7.53 vs \$6.42 per Mcf) and volumes from last year. The estimated decline in gas production for 2006 is 12 Bcf and continues to decrease. The decrease reflects continued decline in production in southwest Kansas. However, the slowing in decrease in gas production can be attributed to the increase in coalbed methane production in eastern Kansas, which will increase in 2006 almost 5 Bcf to 23+ Bcf/year.

In 2006 total value of Kansas oil and gas production at the wellhead is estimated to be more than \$4.6 billion. This is down slightly from the wellhead value of \$4.7 billion in 2005, but is up from the \$1.5 to \$2.5 billion average of the 90's. In real dollars, the value remains below the peak of the late 70's and early 80's

Drilling activity has more than doubled since the late 1990's. However, activity remains well below the activity levels of the early 1980's. A significant portion of the activity increase can be attributed to the emergence of coalbed methane activity in eastern Kansas

Tim Carr Phone 785.864.2135

Email: tcarr@kgs.ku.edu

ENERGY AND HOUSE UTILITIES

DATE: 1-18-2007

ATTACHMENT 5