

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Vice-Chair Rob Olson at 9:15 A.M. on January 28, 2008 in Room 783 of the Docking State Office Building.

All members were present except:

Dan Johnson- excused
Terry McLauchlan-excused
Margaret Long-Excused

Committee staff present:

Mary Galligan, Kansas Legislative Research
Carol Toland, Kansas Legislative Research
Renaë Hansen, Committee Administrative Assistant

Conferees appearing before the committee:

Janet Buchanon, KCC
Steve Weatherford, Kansas Development Finance Authority
Mary Galligan, Legislative Research

Others attending:

Twenty eight including the attached list.

Janet Buchanon, KCC, (Attachment 1), presented a letter and follow up information from their KUSF presentation last week, with charts showing the history of the Kansas Universal Service Fund and the amounts received by the carrier.

Questions were asked and comments made by Representatives: Forrest Knox, Carl Holmes, and Tom Sloan.

Steve Weatherford, Kansas Development Finance Authority, (Attachments 2, 3, and 4) offered testimony explaining Kansas' Kansas Energy Efficiency [loan] Program (KEEP). Additionally, he brought their KEEP brochure to "get the word out", and a map that shows where the program has been implemented in the state of Kansas. It was noted, if the maximum loan amount was taken by all individuals, they have enough funds to loan out \$10,000 to 200 individuals. He noted that if this becomes a long term goal of the state of Kansas then he feels that more banks will participate as it becomes a good long term investment of their time and training invested to get this program started.

Questions were asked and comments made by Representatives: Vern Swanson, Tom Hawk, Josh Svaty, Richard Proehl, Carl Holmes, Forrest Knox, Tom Moxley, Annie Kuether, and Vaughn Flora.

Mary Galligan, Legislative Research, (Attachment 5), presented the 2007 Annual Report to the Governor and the Legislature from the Kansas Electric Transmission Authority (KETA). This was the Authority's second full year of operation. During this past year the board announced its first project to plan, build, develop, and construct a transmission line from Spearville, Kansas to Axtell, Nebraska. It was requested by an Energy and Utilities Committee member that the Southwest Power Pool information about the regional lines that are proposed and their viability, be made available to the committee.

Questions were asked and comments made by Representatives: Vaughn Flora, Tom Hawk, Carl Holmes, and Tom Sloan.

KETA has asked for one piece of legislation that they are presenting on the Senate side, that would change the statute regarding the 90 day time table for responding to KETA RFP's clarifying the 90 days starts from the publication of the Register and not the publication in newspapers or national magazines.

Ray Hammerlund, KCC, spoke to the committee about the meeting that took place in Oklahoma with the SPP. There will be about 24,000 megawatts of wind power potentially added to the Southwest Power Pool (SPP) for additional needed transmission lines.

CONTINUATION SHEET

MINUTES OF THE House Energy and Utilities Committee at 9:15 A.M. on January 28, 2008 in Room 783 of the Docking State Office Building.

The chairman expressed concern about the fact that the SPP continues to speculate about the construction of transmission lines and he is concerned that we are not moving on building the lines.

The next meeting is scheduled for January 29, 2008.

The meeting was adjourned at 10:25 a.m.

HOUSE ENERGY AND UTILITIES COMMITTEE GUEST LIST

DATE: January 28, 2008

NAME	REPRESENTING
Joe Dick	KCBPU
Karl Wenger	Kerry & Associates
JANET BUCHANAN	KCC
RAY HANNAH LUND	KCC
TOM DAY	KCC
John C. Botterby	AT&T / WESTAR
D. Stan May	Pinegar Smith
Mike Murray	Eucbang
Austin Hayden	Hein Law Firm
MARK BORANYAK	CAPITOL STRATEGIES
PHIL WAGOS	KCPKO
Mark Schreiber	Westar
Larry Berg	Midwest Energy
Jim Gartner	AT&T
Dan Jacobson	↓
Jeffery Lewis	↓
Steve Weatherford	KHRC
Mike Urban	Kansas Gas Serv
Andy Allen	SITA



*Kathleen Sebelius, Governor
Thomas E. Wright, Chairman
Michael C. Moffet, Commissioner
Joseph F. Harkins, Commissioner*

January 30, 2007

The Honorable Representative Carl Holmes
House Energy and Utilities Committee, Chairman
State Capitol
300 SW 10th
Topeka, KS 66612

Dear Chairman Holmes:

Attached is the information requested by members of the House Energy and Utilities Committee during the briefing on the Commission's recent action to require Interconnected VoIP providers to contribute to the KUSF. The attachment contains information regarding the size of the fund and the assessment rate for each KUSF year. Note that the difference between the size of the fund and the amount to be collected is equal to a surplus in the reserve that is kept in the fund for contingencies.

The Commission is in the process of adopting the new assessment rate for the KUSF that will go into effect March 1, 2008. Staff has provided testimony indicating that the size of the fund will be \$65.1 million and the amount to be collected will be \$57.9 million. Staff's testimony indicates that the assessment rate will be 4.65%.

Please let me know if the Committee needs additional information. I can be reached at (785) 271-3293 or j.buchanan@kcc.ks.gov.

Sincerely,

A handwritten signature in cursive script that reads "Janet Buchanan".

Janet Buchanan
Chief of Telecommunications
Kansas Corporation Commission

**History of Kansas Universal Service Fund
(KUSF)**

2-1

Description	Year 1 3/1/1997	Year 2 Effective 6/1/1998	Year 3 3/1/1999	Year 4 3/1/2000	Year 5 3/1/2001	Year 6 3/1/2002	Year 7 3/1/2003
Order Date	12/27/1997	4/29/1998	1/29/1999	1/19/2000	1/19/2001	1/22/2002	1/24/2003
Docket No.	94-GIMT-478-GIT	94-GIMT-478-GIT	94-GIMT-478-GIT	00-GIMT-236-GIT	01-GIMT-235-GIT	02-GIMT-161-GIT	03-GIMT-284-GIT
Size of Fund [1]	\$ 70,468,892	\$ 100,452,021	\$ 100,296,911	\$ 63,071,500	\$ 65,002,308	\$ 60,134,748	\$ 73,602,709
Amount toBe Collected [2]	77,788,220	68,756,420	85,824,741	60,270,500	58,760,820	49,073,331	65,739,179
Estimated Industry Revenues [3]	\$ 864,361,690	\$ 1,006,520,487	\$ 1,125,051,194	\$ 1,225,326,005	\$ 1,270,067,963	\$ 1,326,562,228	\$ 1,316,330,994
<u>KUSF Rates:</u>							
Assessment	9.00%	6.83%	7.63%	4.92%	4.85%	3.70%	4.99%
Surcharge	9.89%	7.33%	8.26%				
Wireless Assessment (a)		6.49%	7.24%	4.66%	4.38%	3.34%	4.99%
Wireless Surcharge (a)		6.94%	7.81%	Adopted one rate for landline providers and a reduced rate for wireless providers.			Adopted one assessment rate for all telecommunications providers.
<u>Wireless Reduction Factor:</u>							
(effective 10/98 through 2/03)		5.03%	5.03%	5.03%	9.69%	9.69%	
<u>Intrastate Safe Harbor</u>							
Wireless			85.00%	85.00%	85.00%	85.00%	71.50%
Paging			88.00%	88.00%	88.00%	88.00%	88.00%
Analog SMR			99.00%	99.00%	99.00%	99.00%	99.00%
<u>Per Line Amount (b):</u>							
SWBT	\$ 2.00	\$ 1.99	b \$ 2.21	(c) \$ 1.51	\$ 1.45	\$ 1.19	\$ 1.61
Sprint	1.35	1.37	1.55	0.97	1.15	0.98	1.43
Tri-County	1.07	0.87	0.96	0.33	0.54	0.42	0.70
Cass County	2.11	1.81	2.24	1.35	1.34	1.10	1.61
RLECs in Stipulation	1.43	1.41	1.50	0.79	0.63	0.49	0.77

Notes:

[1] The Size of the Fund reflects the sum of all monies needed to meet Fund obligations, plus monies for a contingency

[2] The Amount to Collect reflects the Size of the Fund, less any surplus reserve.

[3] Estimated Industry Revenues reflect the total industry revenues projected to be reported by carriers to the KUSF Administrator. Intrastate access reductions, implemented consistent with KCC orders and state statute, are reflected through a reduction to the projected revenues.

(a) Pursuant to K.S.A. 66-2008(b), the KCC reduced wireless providers' assessment by 5.03% effective 10/1/98. Pursuant to the Commission's July 9, 2002 Order, Docket 02-GIMT-161-GIT, all carriers pay the same assessment rate, effective 3/1/2003.

(b) Amount Per Line is the amount each Incumbent Local Exchange Carrier is authorized to collect from customers for Local Services.

**History of Kansas Universal Service Fund
(KUSF)**

1-3

Effective Date:	Year 8 3/1/2004	Year 9 3/1/2005	Year 9 10/1/2005	Year 10 3/1/2006	Year 11 3/1/2007
Order Date	1/27/2004	1/27/2005	8/23/2005	1/23/2006	1/23/2007
Docket No.	04-GIMT-331-GIT	05-GIMT-260-GIT	05-GIMT-260-GIT	06-GIMT-332-GIT	07-GIMT-276-GIT
Size of Fund [1]	\$ 66,781,685	\$ 61,517,756	\$ 68,797,737	\$ 73,159,583	\$ 62,381,108
Amount to Collect [2]	62,059,381	54,445,408	63,236,241	73,159,583	51,852,824
Estimated Industry Revenue [3]	\$ 1,274,195,207	\$ 1,260,383,952	\$ 1,260,383,952	\$ 1,204,705,741	\$ 1,193,371,608
KUSF Assessment Rate	4.87%	4.32%	5.02%	6.07%	4.35%
<u>Intrastate Safe Harbor</u>					
Wireless	71.50%	71.50%	71.50%	71.5%, Mar.-Sept.06 62.9%, Effect. Oct. 1	62.90%
Paging	88.00%	88.00%	88.00%	88.00%	88.00%
Analog SMR	99.00%	99.00%	99.00%	99.00%	99.00%
<u>Per Line Amount [4]:</u>					
AT&T (formerly SBC)	\$ 1.50	\$ 1.31	\$ 1.52	\$ 1.78	\$ 1.30
Sprint	1.54	1.36	1.58	1.82	1.21
Tri-County [5]	0.76	0.96	1.11	1.25	0.88
Cass County [5]	1.66	1.48	1.72	1.98	0.88
RLECs in Stipulation [5]	0.87	0.79	0.92	1.14	0.88

Notes:

[1] The Size of the Fund reflects the sum of all monies needed to meet Fund obligations, plus monies for a contingency

[2] The Amount to Collect reflects the Size of the Fund, less any surplus reserve. In Year 10, the Size of the Fund and the Amount to Collect were the same, due to a minimal surplus balance and recognition of a liability resulting from Bluestem et. al. vs. KCC.

[3] Estimated Industry Revenues reflect the total intrastate revenues projected to be reported by carriers to the KUSF Administrator. Reflects intrastate access reductions, implemented consistent with KCC orders and state statute.

[4] The Amount Per Line is the amount each Incumbent Local Exchange Carrier is authorized to collect from customers for Local Services.

[5] See Commission's December 4, 2006 Order Granting Tri-County's and FairPoint Missouri's Motion to participate in RLEC Stipulation, approved Dec. 27, 1996 in Docket No. 94-GIMT-478-GIT. Effective March 1, 2007, Tri-County's and FairPoint's Per Line Assessment is the same as that for all Rural LECs.

Kansas Universal Service Fund (KUSF) Support
Paid to Carriers
(3/1/1997 to 2/28/2007)

1-4

Carrier	Year 1 (3/97-2/98)	Year 2 (3/98-2/99)	Year 3 (3/99-2/00)	Year 4 (3/00-2/01)	Year 5 (3/01-2/02)	Year 6 (3/02-2/03)	Year 7 [b] (3/03-2/04)	Year 8 [b] (3/04-2/05)	Year 9 [b] (3/05-2/06)	Year 10 [c] (3/06-2/07)	Total (3/1/97-2/28/07)
Bluestem	\$ 169,316	\$ 169,317	\$ 169,685	\$ 259,455	\$ 235,750	\$ 50,478	\$ 139,350	\$ -	\$ 15,038	\$ 15,038	\$ 1,223,427
Blue Valley [d]	475,153	468,889	467,017	979,180	1,098,319	909,228	684,835	612,211	788,998	795,819	7,279,649
Cass County [e]	31,172	31,960	33,850	58,081	57,576	58,019	66,248	57,704	56,908	-	451,518
Columbus [f]	97,111	67,999	41,409	167,398	149,070	50,704	-	-	-	-	573,691
Council Grove	17,773	-	-	86,993	75,616	74,289	103,550	711,715	1,177,670	1,177,670	3,425,276
CrawKan	295,743	295,743	295,743	2,123,826	1,830,363	1,459,344	2,194,637	1,855,253	2,013,935	2,013,935	14,378,522
Cunningham	533,448	533,448	533,448	651,858	709,793	708,202	770,021	736,248	628,476	587,495	6,392,437
Elkhart	-	-	-	312,432	365,950	350,868	468,078	468,078	495,326	495,326	2,956,058
Golden Belt [g]	883,514	883,514	883,514	1,230,320	1,246,952	1,245,661	1,739,144	540,416	-	-	8,653,035
Gorham	36,702	36,610	36,567	55,972	57,656	57,217	85,483	77,515	78,352	78,352	600,426
Haviland	464,305	373,765	357,275	614,830	593,323	585,618	869,262	1,006,772	1,178,004	1,178,004	7,221,158
H & B	544,720	522,616	518,031	572,322	577,968	571,520	635,224	616,159	620,200	620,200	5,798,960
Home	529,392	515,264	526,675	689,102	689,475	646,200	820,852	806,494	841,912	841,912	6,907,278
JBN	509,790	509,790	522,661	833,711	828,153	711,788	321,347	321,347	383,489	383,489	5,325,565
KanOkla	642,033	643,230	644,595	767,240	769,137	767,665	938,894	892,252	942,699	941,891	7,949,636
LaHarpe	33,740	31,184	31,184	69,366	74,128	73,325	209,389	199,633	249,527	249,527	1,221,003
Madison	269,088	269,088	269,310	356,767	346,070	346,515	377,970	373,888	374,845	374,845	3,358,386
MoKan Dial [h]	24,984	-	-	453,667	906,758	909,633	1,189,640	-	22,384	22,384	3,529,450
Moundridge [i]	422,819	422,819	431,891	776,796	778,901	779,830	469,635	-	-	-	4,082,691
Mutual	23,692	24,984	24,984	80,125	81,154	80,677	112,288	112,288	119,826	119,826	779,844
Peoples	123,890	122,157	125,402	262,387	281,361	283,429	360,109	358,500	367,052	367,052	2,651,339
Pioneer	878,953	581,177	513,194	2,079,796	1,810,975	2,878,119	3,401,527	3,032,983	3,068,660	3,068,660	21,314,044
Rainbow	135,563	135,562	145,335	247,133	256,326	252,460	385,588	344,398	367,989	367,989	2,638,343
Rural	3,476,180	3,661,706	3,661,706	4,624,650	4,613,181	4,039,753	4,252,626	4,068,765	4,267,840	4,267,840	40,934,247
S & A	551,184	549,700	549,433	619,889	625,196	623,319	498,970	444,855	451,257	451,257	5,365,060
S & T	1,044,350	1,403,205	1,403,205	1,677,901	1,678,931	1,405,968	1,015,774	986,605	1,052,515	1,052,515	12,720,969
South Central	534,381	514,742	514,742	530,641	533,030	541,608	637,931	612,755	880,421	426,166	5,726,417
Southern KS	41,372	-	-	3,699,981	3,903,478	974,650	1,487,371	1,363,147	1,387,409	1,387,409	14,244,817
AT&T E/ka/ SW Bell	40,025,600	65,042,907	65,042,907	17,521,452	13,024,477	10,500,596	9,397,260	8,913,467	8,451,477	8,286,106	246,206,249
Sprint/United of KS	7,790,640	14,349,993	14,349,993	11,072,784	11,402,510	11,436,996	11,660,366	10,717,734	11,149,865	7,698,078	111,628,959
Sunflower [j]	1,319,910	1,257,238	1,267,970	1,483,997	1,343,593	7,057	43,233	-	-	-	6,722,998
Totah	273,766	273,067	274,727	347,578	353,041	352,609	522,967	489,127	460,182	342,946	3,690,010
Tri-County	232,502	234,027	235,244	418,309	428,022	427,764	606,215	528,531	1,356,399	1,868,783	6,335,796
Twin Valley [k]	693,262	701,928	705,395	893,489	920,038	920,040	1,051,368	1,401,878	1,441,078	3,035,316	11,763,792
United Telephone Assn	316,056	201,435	182,462	617,429	761,197	760,680	1,153,348	829,107	308,588	308,588	5,438,890
Wamego	-	-	-	218,254	308,190	290,051	498,973	385,493	494,482	494,482	2,689,925
Wheat State	667,876	671,600	671,600	911,281	935,539	928,574	1,027,316	897,767	935,551	935,551	8,582,655
Wilson	833,350	835,895	835,895	1,170,703	1,011,399	929,030	1,002,941	951,359	967,216	967,216	9,505,004
Zenda	81,924	81,923	82,145	98,119	104,897	104,830	123,771	120,487	128,970	128,970	1,056,036
Western Wireless [l]	N/A	N/A	N/A	N/A	101,000	101,000	101,000	101,000	101,000	-	505,000
Total	\$ 65,025,254	\$ 96,418,482	\$ 96,349,194	\$ 59,635,214	\$ 55,868,493	\$ 48,195,314	\$ 51,424,501	\$ 45,935,931	\$ 47,625,540	\$ 45,350,637	\$ 611,828,560

Notes:

[a] The KUSF Support paid reflects actual amounts paid to carriers each year, with the exception of Year 10. Year 10 support is based on support payable to each carrier as of March 1, 2006, but is subject to change.
 [b] Year 1 KUSF Support amounts are prior to any offset for rebalancing rates to the statewide average.

[c] Year 7 through 9 KUSF Support paid to rate of return regulated companies has been revised to reflect the amount of support each carrier would have been paid, absent KUSF support changes related to access line increases or reductions, retroactive to July 1, 2002, consistent with the *Bluestem Telephone Co. et al. v. Kansas Corporation Commission* case.

[e] Effective 3/1/2006, Cass County no longer receives KUSF support, pursuant to Docket No. 05-GIMT-094-GIT.

[f] Effective 3/1/2003, Columbus no longer receives KUSF support, pursuant to Docket No. 03-CBST-778-TAR.

[g] Effective 7/1/2004, Golden Belt no longer received KUSF support, pursuant to Docket No. 04-GNBT-130-AUD.

[h] Effective 3/1/2004, MoKan no longer received KUSF support, pursuant to Docket No. 04-MKNT-364-AUD.

[i] Effective 8/1/2003, Moundridge no longer received KUSF support, pursuant to Docket No. 04-MRGT-1117-AUD.

[j] Effective 6/1/2003, Sunflower no longer received KUSF support, pursuant to Docket No. 01-SFLT-879-AUD.

[k] Effective 3/1/2006, Twin Valley receives KUSF support for 13 exchanges it purchased from the United Telephone Companies of Kansas, approved in Docket No. 05-TWVT-116-COC.

[l] Western Wireless' KUSF support paid in Years 5-9 may be subject to true-ups. Effective 1/1/2006, KUSF support is no longer paid for the Western Wireless properties that were transferred to U.S. Cellular.

TESTIMONY BEFORE ENERGY AND UTILITIES COMMITTEE
REGARDING THE KANSAS ENERGY EFFICIENCY PROGRAM

STEPHEN R. WEATHERFORD
PRESIDENT, KANSAS FINANCE DEVELOPMENT AUTHORITY
PRESIDENT, KANSAS HOUSING RESOURCES CORPORATION
January 28, 2008

Chairman Holmes and Members of the Committee:

Thank you for the opportunity to speak with you about the Kansas Energy Efficiency [Loan] Program (KEEP). In response to a 2006 State appropriation, the Kansas Housing Resources Corporation (KHRC) launched KEEP, a statewide loan program to promote energy conservation and efficiency. The intent was to establish a low-interest loan program to encourage low and moderate income homeowners to make energy efficient home improvements.

KEEP was based on a very successful energy loan program in Nebraska. The Nebraska program had been in operation for over 20 years enjoying funding of over \$24 million. The Nebraska program provides loans for residential, industrial and commercial structures, with no income limitations.

In an effort to help families most in need, KEEP was originally set up to focus on homeowners with household income below 120 percent of the state median income. Putting this in perspective, a family of four was income-eligible if its income did not exceed \$77,915.

KEEP was designed to work with lenders, with each party providing one half of the eligible loan amounts. Interest rates for KHRC's half is zero percent, while the lender determines its rate based on the borrowers' credit worthiness and prevailing interest rates. The resulting "blended" rate results in an effective rate to the borrower of one-half that required without the KEEP funds. State funds were initially restricted to \$7,500 per applicant.

ENERGY AND HOUSE UTILITIES

DATE: 1/28/2008

ATTACHMENT 2-1

KEEP loans were limited to specific energy-efficiency measures that have proven value in lowering energy use. Eligible improvements include installation of specific ENERGY STARSM forced air natural gas or propane furnaces, central air conditioners, heat pumps, water heaters and ventilation systems; installing wall and floor insulation, new storm doors and windows, and weather stripping; air sealing, duct work and the purchase of certain ENERGY STARSM appliances such as refrigerators, washers, dryers, dishwashers and programmable thermostats.

When my staff began searching for lending partners, only one—Sunflower Bank—agreed to work with the program. Sunflower staff collaborated with KHRC staff to design application forms and to assure all needed information could be gathered and applicants would be informed about what the loan could do.

KHRC staff disseminated informational materials in several ways, including statewide press releases, mailings to contractors around the state and to public libraries, and limited newspaper advertising. KHRC has presented KEEP information to associations and groups around the state, including legislators, banking and housing groups, weatherization agencies, the Kansas Energy Council, and county extension offices. Westar and Aquila have promoted the program through their websites and utility bill inserts.

Despite the clear value of a KEEP loan, applications were limited. Our analysis suggested two primary factors contributed to this: (1) by concentrating on families with lower income, the applicant pool was limited to those less able to afford making the improvements; and (2) the lack of participating lenders may have discouraged some potential applicants.

In response to the limited activity of the program, staffs from KHRC and Kansas Energy Council visited Nebraska to review their program for potential enhancements to the Kansas program. Based upon analysis of the differences and similarities in the respective programs, and upon recommendation of the Energy Council, KHRC removed the income limits, encouraged more lender participation, partnered with the KCC to promote the program, and increased the maximum loan amount to \$10,000.

KHRC has also recruited additional participating lenders into the program. Midwest Energy will soon begin offering the program to their customers and serving as the lender for the program. Additionally, we are in discussions with another bank with a larger presence on the eastern side of the state.

In the year before the program changes were made, KEEP had received 25 applications for \$88,703. In the month since we implemented the changes, we have already received nine applications for \$57,438. We are confident that the program is poised to begin performing as we have all hoped. Attached to this testimony you will find a map which demonstrates the borrower locations and the service areas covered by Midwest Energy. This map helps demonstrate the geographic activity of the program.

We appreciate your interest in this program. We believe the KEEP program is important for Kansans, and we believe the changes will encourage more families to make needed energy-efficiency improvements to their homes.

Kansas

Energy Efficiency Program

Attention Homeowners!

Here's your chance to reduce skyrocketing utility bills and make energy conscious upgrades to your home...all at the same time! The Kansas Energy Efficiency Program is a new statewide initiative from the Kansas Housing Resources Corporation providing low interest loans to homeowners wanting to make long-term energy efficient home improvements.

IMPORTANT NOTE! *KEEP income restrictions have been eliminated!*
All homeowners are encouraged to apply!

How does KEEP work?

It's easy and there are no income requirements! KHRC funds half of the home improvement loan, up to a maximum of **\$10,000**. Sunflower Bank funds the rest. Total loan amounts may be higher as determined by Sunflower. Funding comes from Governor Sebelius' Warm Homes Initiative.

Why is KEEP a good deal?

The ZERO interest rate on KHRC funds translates into a lower blended interest rate than you'd get by taking out a regular second mortgage loan.

Improvements allowed?

- ✦ Installing specified ENERGY STAR heating, cooling & ventilation systems.
- ✦ Installing wall & floor insulation.
- ✦ Air sealing, duct work & weather-stripping.

Want more information?

Contact Sunflower Bank at 1-888-827-5564 or visit the bank's website at www.sunflowerbank.com. Certain restrictions apply. For details, consult KHRC's website at www.kshousingcorp.org/programs/KEEP.shtml or call Christine Reimler at 1-800-752-4422.



Stay Warm... Save Energy... Save Money!

ENERGY AND HOUSE UTILITIES

DATE: 1/28/2008

ATTACHMENT 3

**KS Electric
Transmission Authority**
KETA

January 14, 2008

Honorable Kathleen Sebelius, Governor
Steve Morris, President of the Senate
Melvin Neufeld, Speaker of the House

*Representative Carl
Holmes, Chair*

Governor, President, and Speaker:

*Earnie Lehman,
Vice-Chair*

*Tim McKee,
Secretary*

Senator Jay Emler

Les Evans

*Representative
Annie Kuether*

Senator Janis Lee

The Board of the Kansas Electric Transmission Authority (KETA) is proud to submit this report of the Authority's second full year of activities. The Authority has accomplished a great deal this year. After being fully operational for only approximately 18 months, the Board was able to announce its intent to plan, develop and construct a 345 kV electric transmission line from the vicinity of Spearville to the vicinity of Axtell, Nebraska. In addition, construction of two other sorely needed transmission lines is planned by Westar Energy – one northwest from Wichita to Reno County continuing northeast to the Summit Substation near Salina and the other south from Rose Hill near Wichita to the Sooner Substation near Perry, Oklahoma.

In another heartening development this year, the Kansas Corporation Commission certified the State's first transmission-only utility, ITC Great Plains. The Southwest Power Pool (SPP) later chose ITC Great Plains as the project sponsor for a new high voltage transmission line that will extend southwest from Spearville to Comanche County, then northeast to the vicinity of Wichita. In response to KETA's announcement of intent to build the Spearville to Axtell transmission line, ITC Great Plains notified KETA of the company's intention to build the line. Subsequently, the SPP designated ITC Great Plains as the project sponsor for the Spearville-Axtell line.

This focus of activity in the southwest and central areas of the state is necessitated by the concentration of energy intensive industry in the area and by the growing desire for wind-generated electricity. Southwest Kansas is one of the nation's prime locations for generation of electricity from wind, but also is an area lacking the infrastructure necessary to transmit that electricity to consumers. The outgrowth of our efforts in concert with many organizations and individuals who are dedicated to a robust and secure energy transmission

Kansas Electric Transmission Authority
Rm 010-W Statehouse, 300 SW 10th, Topeka, KS 66612
voice:(785)296-3181 fax:(785)296-3824 keta@in
<http://www.accesskansas.org/keta>

ENERGY AND HOUSE UTILITIES

DATE: 1/28/2008

ATTACHMENT 5-1

infrastructure will be construction of transmission lines in central and western Kansas in the very near future.

Our excitement about these developments has been tempered by emerging questions concerning the ability of electricity generation to be a stimulant for economic development in the State. Specifically, we have explored, but have not resolved, questions about the impact of the cost of transmission infrastructure on rural areas where the local economy lags behind that of the State's urban centers. We are concerned that rural ratepayers may shoulder all of the cost of interconnections necessary to move wind-generated electricity to the cities.

When we reported to you a year ago, we were hopeful that additional high-capacity transmission lines would be built to support the proposed power plant expansion near Holcomb. The promise of those new transmission lines was that they would carry electricity from expanded wind generation facilities in the western part of the State. However, at the end of this year we are confronted with a new, complex set of unanswered questions about the potential impact on transmission grid expansion of the decision to deny the air quality permit for the Holcomb Energy Center project. All of these matters remain under discussion as the year comes to a close. Many more facts remain to be gathered and assessed before a clear direction can be identified.

We held nine Board meetings this year and in addition have met and worked with our counterparts in North Dakota, South Dakota, Montana, Wyoming, Idaho, Colorado, Nevada and New Mexico. Our key activities are highlighted in the section that follows. The initial interstate meeting in June, led to a joint effort of the transmission and infrastructure authorities and their respective governors' offices to familiarize the Federal Energy Regulatory Commissioners and members of Congress with our respective operations and our shared concerns about an aspect of transmission infrastructure finance. Through this first-ever joint effort, Governor Sebelius and six other governors formally encouraged key congressional leaders to continue their support for legislation creating a tax exemption for bonds issued by authorities such as KETA in order to facilitate expansion of the transmission grid. We were disappointed that the exemption was removed from the final version of the 2007 federal energy bill.

KETA continued to operate frugally during 2007 with financing from the Public Service Regulation Fund. Authority staff functions are performed by the Legislative Research Department and the Kansas Corporation Commission. The Commission also frequently provides KETA with meeting space at no cost. As of the end of November, the Authority had expended slightly under \$46,000, including encumbered costs for contract legal services. As was the case a year ago, we anticipate that the upcoming year will be at least as active as this year.

KETA has requested operational financing for FY 2009 in the same amount requested for FY 2008 as a loan from the State General Fund as envisioned in the KETA

authorizing legislation. The request anticipates continued staff support from the Research Department and the Corporation Commission.

The Board's assessment is that the following activities in the upcoming year are crucial to achieving KETA's goal of ensuring reliable operation of the electrical transmission system and diversifying and expanding the Kansas economy.

- Updating the KETA Business Plan;
- Continuing and expanding the ongoing dialogue with the Southwest Power Pool to augment the efforts of Kansas utilities and the Corporation Commission to ensure that the State's economic and energy needs are factored into regional transmission system planning;
- Sharing information, planning techniques and implementation strategies, and engaging in joint efforts with our counterparts in other states; and
- Preparing for construction of a 345 kV transmission line from Spearville, Kansas to Axtell, Nebraska, if a private entity is not able to construct that project.

KETA appreciates your support during 2007 and looks forward to an equally productive year in 2008.

Respectfully,



Representative Carl Holmes, Chairperson
Kansas Electric Transmission Authority

Overview of KETA Activities -- 2007

January 2007

At its first meeting of the year, the Board re-elected its officers for a second term. The Board continued its fact-finding effort by receiving briefings from the Southwest Power Pool and Kansas Corporation Commission staff specifically regarding cost recovery mechanisms currently available through the SPP tariff structure. The Board voted to commission a study by the SPP to help identify the most economically sound project for KETA to undertake.

February 2007

The Board received a briefing on the economic assessment study proposal submitted by the Southwest Power Pool. The Board accepted the study proposal and authorized the contract for the study.

March 2007

The Board issued a request for proposals for professional services. The Board also was briefed about a proposal to create a federal tax exemption for bonds issued by entities such as KETA and discussed encouraging Governor Sebelius to pursue the issue through the Western Governors' Association. The Vice-chairperson was designated to work with other state authorities to plan the initial interstate transmission and infrastructure authority meeting.

May 2007

The Board received the results of the SPP feasibility study of three potential transmission projects. The Board explored with SPP staff the impact of assumptions built into the economic model used to identify project benefits and requested additional information from SPP. The Board selected Stevens and Brand, L.L.P., a Lawrence law firm, to serve as KETA's counsel.

June 2007

Westar Energy presented information regarding construction of a transmission line from Wichita to Hutchinson and a proposed new transmission line from Rose Hill to Sooner, Oklahoma. SPP staff provided the Board with additional information regarding the feasibility study presented at the May meeting. Board members met with representatives of other state transmission authorities in Rapid City, South Dakota. The outgrowth of that meeting was a letter from seven governors, including Governor Sebelius, to key members of Congress encouraging them to provide a federal tax exemption for bonds issued by similar authorities for transmission grid improvements.

July 2007

ITC Great Plains presented information regarding its plan to construct the northeast segment of the SPP-designated X Plan transmission line from Spearville through Comanche County to Wichita. The Board passed a motion to begin the process of planning, developing and constructing its first project, a transmission line from Spearville to Axtell, Nebraska. That action set in motion the statutory process of providing public notice of the Board's intent in order to allow private entities an opportunity to indicate intent to construct the project.

September 2007

The Board forwarded its FY 2009 budget request to the Governor. Corporation Commissioner Moffet provided the Board with information about an extra high voltage (EHV) transmission line project under discussion by the SPP Regional State Committee. The Board also discussed with Westar Energy and with ITC Great Plains the progress of its planned new transmission line projects.

November 2007

The Board met to consider its agenda for the December meeting in light of the altered electric generation and transmission environment created when the Secretary of Health and Environment rejected the air quality permit application of Sunflower Electric Power Corporation for expansion of its Holcomb facility. The Board also received an update from ITC Great Plains regarding progress on the KETA project which included selection of a route, identification of a consultant to study potential benefits of the project, and a preliminary target date of 2010 for placing the line in service.

December 2007

The Board received testimony from a number of conferees responding to specific questions posed by the Board regarding transmission construction plans in light of the denial of the air quality permit for the Holcomb generating facility expansion. SPP staff informed the Board that the Holcomb decision moves the need for the western portion of the X Plan transmission several years into the future. The Board explored with a number of conferees various models for recovering costs of building transmission projects and learned that at least some revised economic assumptions will be required for planned projects because of the Holcomb decision. Hunt Transmission Services, which also responded to the KETA notification of intent for the Spearville-Axtell transmission line, reported to the Board that the company is interested in the project, but is not in a position to commit to it.

The second interstate meeting of infrastructure and transmission authorities was held in Santa Fe, New Mexico. Two KETA Board members attended.

Minutes of the Board's meetings are posted on the KETA website at <http://accesskansas.org/keta>.

The Board continued implementing the work plan developed late in 2006. That work plan with progress notes follows.

Kansas Electric Transmission Authority

2006-2007 Business Plan Outline

(Reflecting Discussion on November 3, 2006)
Progress noted through the end of 2007

I. Situation Assessment

- A. Poll stakeholders regarding needed investment (DONE)
 - 1. Transmission owners
 - 2. Renewable energy developers
 - 3. Transmission dependent utilities
 - 4. Environmental interests
- B. Identify investments being made or planned (DONE)
 - 1. Southwest Power Pool
 - 2. Transmission owners
 - 3. Independent transmission companies
- C. Establish links to other state infrastructure authorities (Ongoing)
 - 1. Evaluate their processes and progress
 - 2. Share intelligence and ideas
 - 3. Convene a joint meeting
- D. Establish link to Southwest Power Pool (Ongoing)

1. Participate in quarterly Strategic Planning Committee meetings (Les Evans is a member and attends regularly.)
2. Monitor Regional State Committee activity

II. KETA Determines Needed Transmission Construction

- A. Evaluate the boundaries and rationale for distinguishing economic from reliability projects (DONE)
 1. Implications for project feasibility
 2. Implications for cost recovery
 3. Triggers for economic projects to become reliability project.
 4. Recommendations for changes in aggregate study process, if any, to SPP
- B. Projects proposed by/for Load Serving Entities (Ongoing)
 1. Pending request from Sunflower
 2. Wichita-Hutchinson
 3. Hutchinson-Summit
 4. Hutchinson-Lincoln-Circle
 5. Spearville-Moreland
 6. Rose Hill-Sooner-Cleveland
 7. Pauline-Concordia-Summit
 8. Fairport-Sibley
 9. Ties to Western Area Power Administration – Eastern Plains (Colorado) project
 10. Others
- C. Renewable energy needs – analyze independent of Southwest Power Pool (will include some projects under B.) (Not started)

1. Community wind constraints
 2. Major wind projects
- D. Environmental constraints concerning transmission line siting– final screen before selecting projects (Not started)
- E. Finalize project focus list and timeline (DONE)
1. First draft to be completed by January 2007

III. Transmission Construction

- A. Assess readiness/ability to construct and operate – project by project (DONE)
1. Transmission owners
 2. Independent transmission companies
- B. Monitor utility and independent transmission company-committed transmission construction (Ongoing)
- C. Position KETA to develop/finance specific projects (Not started)
1. Review statutory requirements
 2. Develop “strawman” project, preferably a real one
 3. Conduct an exercise with other stakeholders
 - a) Kansas Development Finance Authority
 - b) Southwest Power Pool
 - c) Kansas Corporation Commission
 - d) Operating entities
 - e) Entities whose customers would be surcharged
 - f) Others

IV. Secure Resources for KETA to Develop and Finance Transmission

- A. Ongoing administrative support (DONE)
 - 1. Prepare 2006 Annual Report
 - 2. Prepare 2007 budget
- B. Project management (Not started)

V. Issue Notices of Intent to Proceed in Construction of Specific Projects (DONE)

KETA Budget

The Authority's approved and revised budget for FY 2008, and the amount requested as a loan from the State General Fund for FY 2009 are displayed in the following table. The Authority also has requested continuing expenditure authority during FY 2009 for any balance remaining in the KETA Development Fund at the close of FY 2008.

	FY 2008 Approved	FY 2008 Revised	FY 2009 Request
Expenditure Category --			
Board Operations			
Compensation	\$ 5,330	\$ 5,330	\$ 5,775
Mileage	11,242	\$ 11,242	12,438
Per Diem	8,604	\$ 8,604	9,477
Out of State Travel, compensation, and subsistence	17,400	17,400	17,400
Web site maintenance and public announcements	-	1,000	1,000
Management services contract	27,423	-	
Professional services (legal, accounting, engineering)	30,000	56,423	56,423
Total -- Operations	\$ 100,000	\$ 100,000	\$ 102,513
Transmission Facility Planning*	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000

* This amount was transferred to the KETA Development Fund for FY 2008. The Board requests authority to expend during FY 2009 any balance available at the close of FY 2008.