

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Pat Apple at 1:30 p.m. on January 22, 2009, in Room 446-N of the Capitol.

All members were present.

Committee staff present:

Ann McMorris, Administrative Assistant
Raney Gilliland, Kansas Legislative Research Department
Cindy Lash, Kansas Legislative Research Department
Mike Corrigan, Office of the Revisor of Statutes
Melissa Doeblin, Office of the Revisor of Statutes

Conferees appearing before the committee:

Cindy Lash, Kansas Legislative Research
Colin Hansen, Executive Director, Kansas Municipal Utilities

Others attending:

See attached list.

Chair Apple opened the meeting and introduced the committee, the staff and the assistant.

Kansas Electric Transmission Authority (KETA) Update

Cindy Lash, Kansas Legislative Research, briefed the committee on (1) Who is KETA?; (2) KETA's Mission; (3) Drivers for KETA's Formation; (4) KETA Authority; (5) Other Specific Powers; (6) Authority Taxation; and (7) KETA Limitations. (Attachment 1)

Senators Emler and Lee spoke highly of the accomplishments of KETA.

Kansas Municipal Utilities

Colin Hansen, Executive Director, provided KMU background facts, membership map showing locations; data on Municipal Electric Utilities, purpose of Kansas Municipal Energy Agency; history on Kansas Power Pool, and facts on Public Power and Local Generation. He explained power supply contracts and US rates for all utilities. He provided a chart on Kansas Public Power Rates and noted the residential rate increases for Kansas Utilities. He explained the need for baseload and transmission. He provided facts on Natural Gas, Water and Wastewater members. (Attachment 2)

The next meeting is scheduled for January 26, 2009.

The meeting was adjourned at 2:30 p.m.

Respectfully submitted,

Ann McMorris, Committee Assistant

Attachments - 2

GUEST LIST
SENATE UTILITIES COMMITTEE
JANUARY 22, 2009

NAME

COMPANY

~~Kimberly G. Sauter Sauter KMW~~

~~Coleen Hansen KMW~~

- Lon STANTON NORTHERN NATURAL GAS CO.

- Nelson Krueger PAR Electrical Contractors

Mari Tucker Dept of Commerce

- Joe Dick KCBPU

- Joe Mosimann HEIN LAW FIRM

- Scott Rothschild Lawrence Journal-World

Scott Jones KCPC

- Whitney Janner Empire

~~Tom DAY KCC~~

- Rand Spruy Carb

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Who Is KETA?

- Created by Kansas Legislature in 2005
- Began operations in 2006
- Seven Board Members
 - Three Appointed by Governor with Senate Confirmation
 - Four Year Terms (staggered initially)
 - Four Legislators *ex officio* – Chairs and ranking minority members of Senate and House Utilities Committees

KS Electric
Transmission Authority
KETA



KETA'S Mission

- Ensure reliable operation of the electrical transmission system
- Diversify and expand the Kansas economy
- Facilitate consumption of Kansas energy through improvements in the state's electric transmission infrastructure.

KS Electric
Transmission Authority
KETA



Senate Utilities Committee
January 22, 2009
Attachment 1-1

Drivers For KETA's Formation

- Assist development of wind energy resources for eastern Kansas and export to other states.
- Increase ability to import and export fossil-fueled generation.
- Reduce large retail rate disparities within Kansas.
- Subtext – lack of new construction by transmission owners in an increasingly constrained environment

KS Electric
Transmission Authority

KETA

KETA Authority

- The Authority may plan, finance, construct, develop, acquire, own and dispose of transmission facilities.
- The Authority shall function as a public entity and shall contract for maintenance and operation of transmission facilities.

KS Electric
Transmission Authority

KETA

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Other Specific Powers

- Enter into contracts with Kansas Development Finance Authority to issue bonds and provide financing for projects.
- Recover costs through Southwest Power Pool (SPP) Regional Transmission Organization tariffs
- Additional cost recovery through Kansas Corporation Commission (KCC) assessments on Kansas retail customers, including customers of utilities otherwise exempt from KCC regulation.

KS Electric
Transmission Authority
KETA

Authority Taxation

- KETA shall not pay Kansas income tax
- KETA shall not pay Kansas sales tax
- KETA shall pay property tax the same as privately and cooperatively owned utilities

KS Electric
Transmission Authority
KETA

KETA Limitations

- All transmission projects must be accepted by the SPP.
- Before KETA can proceed with construction, a notice shall be published and private entities have three months to notify the Authority they will build the project.
- If the project is not started within 180 days, KETA may proceed with the project.

KS Electric
Transmission Authority
KETA

Contact Information

- KETA website:
<http://www.kansas.gov/keta/>
- KETA contact: repcarl@aol.com
- Rep. Carl D. Holmes
PO Box 2288
Liberal, KS 67905

KS Electric
Transmission Authority
KETA

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Kansas Municipal Utilities

*Testimony Before the
Senate Utilities Committee*

Colin Hansen, Executive Director
Kansas Municipal Utilities

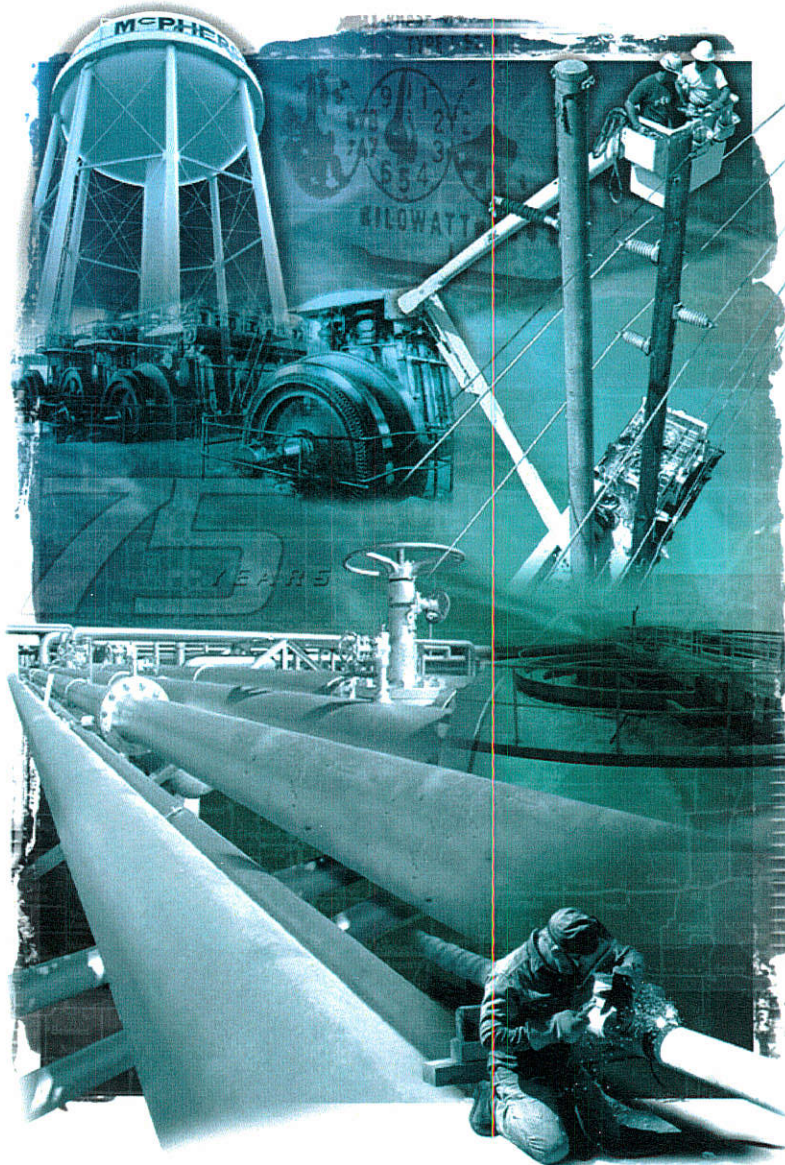


Senate Utilities Committee
January 22, 2009
Attachment 2-1

Quick Facts About...



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kansas municipal utilities

- Statewide Association for Municipal Utilities
 - *Electric*
 - *Natural Gas*
 - *Water*
 - *Wastewater*
- 176 Communities Operating One or More Municipal Utilities
- Established in 1928
- Seven Fulltime Employees
 - *Colin Hansen, Executive Director*
 - *Brad Mears, Director of Operations*
- Headquartered in McPherson
- Kimberly Gencur Svaty, Lobbyist



kansas municipal utilities

2009 Membership

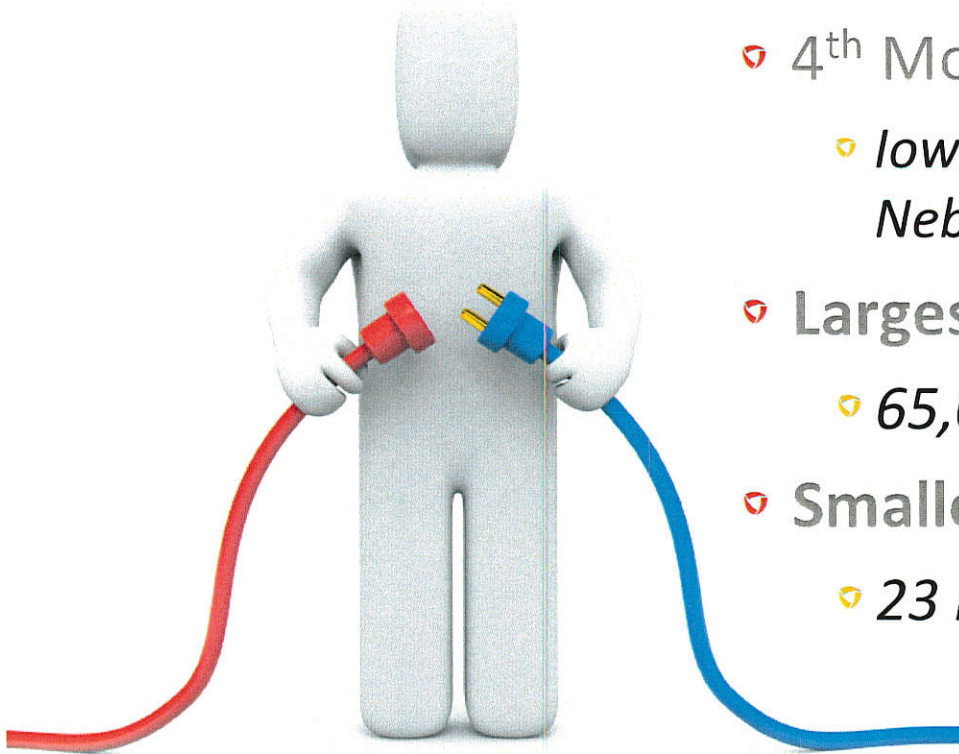
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■ Electric & Water
 ■ Natural Gas & Water
 ■ Water
 ■ Electric, Gas & Water



Municipal Electric Utilities

- ♦ **119** Municipal Electric Utilities in Kansas
 - ♦ “Public Power”
 - ♦ 4th Most Public Power Systems
 - ♦ Iowa (137), Minnesota (125) & Nebraska (121)
 - ♦ Largest: Kansas City BPU
 - ♦ 65,000 meters
 - ♦ Smallest: City of Radium
 - ♦ 23 meters



Municipal Electric Utilities *(ctd.)*

- Median: **882** Customers

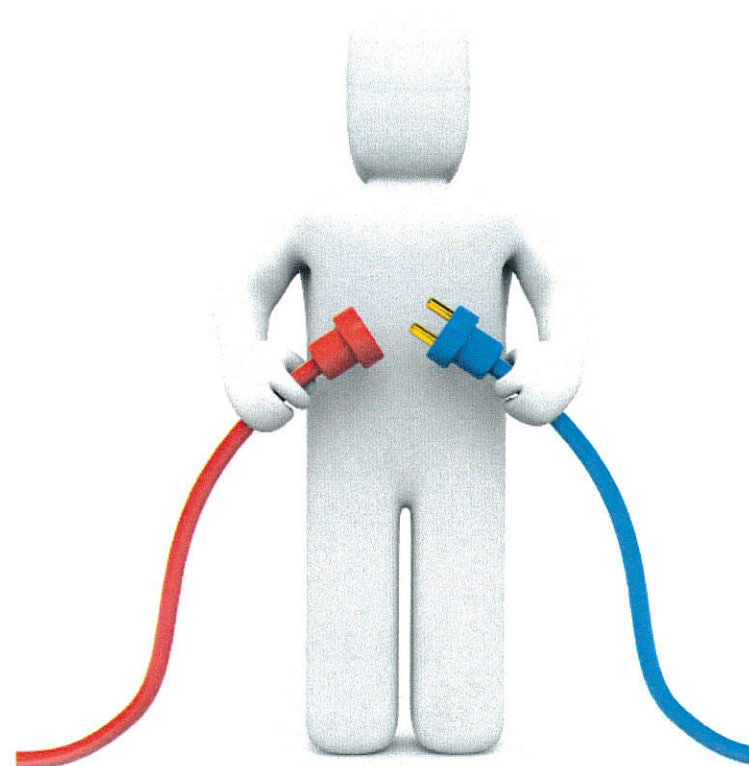
- Examples:*

- Moundridge
- Arma
- Greensburg
- St. John
- La Crosse

- Primarily **Rural** Communities

- Only **Eight** of 119 Public Power Systems Serve In Excess of 5,000 Customers

- Approximately **17%** of Kansas Citizens Served by a Municipal Electric Utility





Kansas Municipal Energy Agency

- “Joint Action Agency”
- Formed in 1980
- Projects:
 - Nearman (37.5 MW)
 - SWPA (11.2MW)
 - WAPA (27 MW)
 - GRDA (39 MW)
- Energy Mgmt Project #1
 - Baldwin City, Gardner, Garnett, Osawatomie & Ottawa
- Energy Mgmt Project #2
 - 9 Cities
 - Holcomb Station Expansion Project Ownership Stake (40 MW)





Kansas Power Pool

- Formed in 2005
 - Cities Given Notice of Pending Cancellation of Long-Term Power Supply Contracts*
- Pooling of Resources
 - GRDA*
 - SWPA*
 - Nearman*
 - OMPA*
 - OPPD*
 - Bowersock Hydropower*
 - Each Cities' Local Generation*
- Expected KPP Demand for All Cities in Current SPP Study = 358 MW
- Estimated 30% Growth in Power Needs Within Ten Years



Public Power

- Locally Owned & Operated
- No Profit Motive (No Shareholders)
- Emphasis on Long-Term Community Goals
- “Profit” to Community
Generally Comes in Form of Payments-In-Lieu-Of-Taxes and/or Transfers to the Community's General Fund





Local Generation

- 62 Municipal Utilities Have Local Generating Facilities
- Baseload: Kansas City BPU Nearman Plant (235 MW)
- Peaking: 60 Municipal Power Plants
 - McPherson BPU: *239 MW*
 - Coffeyville: *47.5 MW*
 - Winfield: *41 MW*
- Typical Characteristics
 - Primarily Utilized Only for Peaking or Reliability Purposes
 - Emergency Backup
 - Typically Inefficient for Baseload (High Heat Rates)
 - Cost of Natural Gas & Diesel Makes Operating Very Costly

Power Supply Contracts

- ❖ Wholesale Power Customers
 - ❖ Full-Requirements Contracts
 - ❖ *Purchase 100% of Electricity Needs Through Power Supplier*
 - ❖ *Westar*
 - ❖ *Kansas City Power & Light*
 - ❖ *Sunflower/MKEC*
 - ❖ *Midwest Energy*
 - ❖ *Others*
 - ❖ *Often Smaller Cities*
 - ❖ *Haven, Hillsboro, Holyrood, etc.*



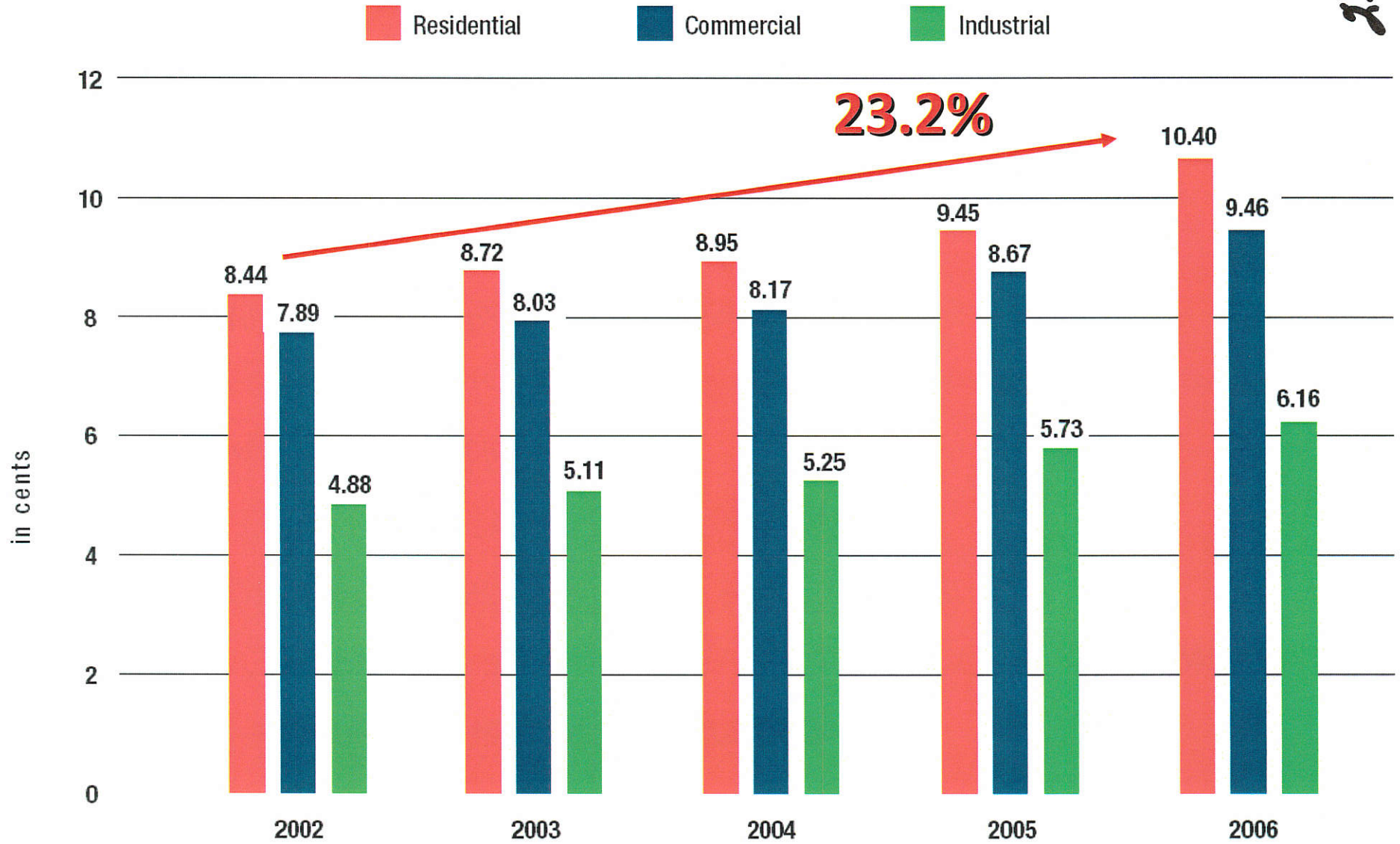


Power Supply Contracts

- ❖ Partial-Requirements Contracts
 - ❖ Use City Power Plant to Lower Overall Cost of Power Supply and Bolster System's Reliability
 - ❖ City Generates During Peak Periods
 - ❖ *Emergency Backup*
 - ❖ Energy "Portfolio" May Come from Several Sources
 - ❖ *Western Area Power Administration*
 - ❖ *Southwestern Area Power Administration*
 - ❖ *Municipal Energy Agency (KMEA, KPP)*
 - ❖ Typically Larger Cities
 - ❖ *Herington, Hoisington, Holton, Horton, Hugoton, etc.*

U.S. Rates – All Utilities

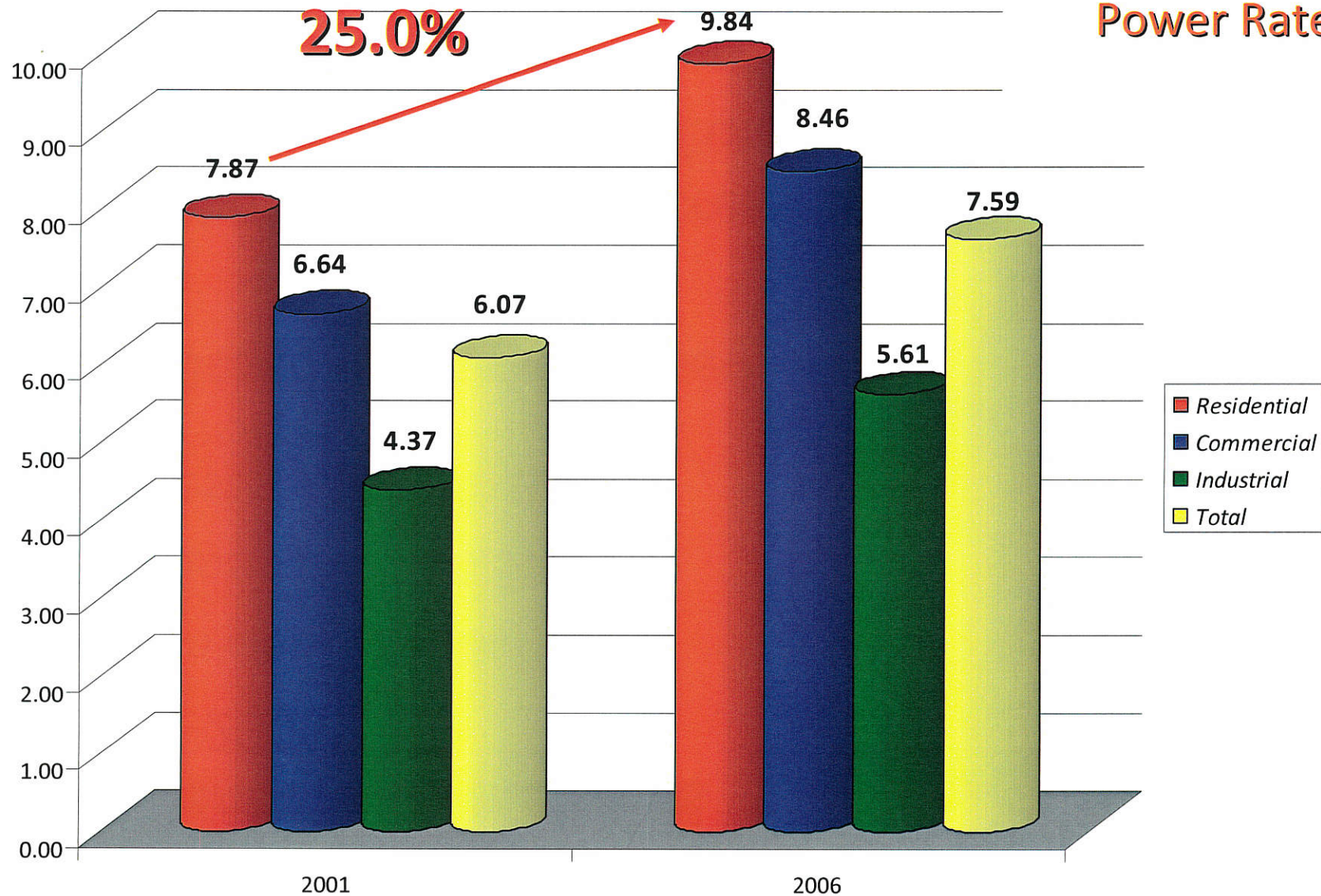
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Source: Energy Information Administration, *Electric Power Annual 2006*.

Kansas Public Power Rates

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(Note Different Time Period From Earlier Slide)

Kansas Utilities



Residential Rate Increases (2001-2006)

- Municipal: **25.0%**
- Cooperative: **10.5%**
- Investor-Owned: **3.3%**
- *(Dept. of Energy EIA-861 Information)*

Cost-Based → Market-Based Rates

Impact of Electric Rate Increases + Impact of State Budget Cuts on Local Government





Need for Baseload

- ❖ Kansas Municipal Generation Planning Project
 - ❖ What is Our Collective Need?
 - ❖ *Immediate*
 - ❖ *Intermediate*
 - ❖ *Long-Term*
 - ❖ Very Basic, **Draft** Analysis of New Baseload Generation Needs Conducted
 - ❖ *Kansas Municipal Energy Agency (KMEA)*
 - ❖ *Kansas Power Pool (KPP)*
 - ❖ *Kansas City BPU*



Need for Baseload

- ▣ Kansas Municipal Generation Planning Project
 - ▣ **Draft** Findings
 - ▣ *373 MW by 2019*
 - ▣ *653 MW by 2029*
 - ▣ *Majority of Growth, Need Projected to Occur in Westar, Kansas City Power & Light and KCBPU Transmission Areas*
 - ▣ *Aggressive Goals & Assumptions Regarding Demand-Side Management and Renewable Energy*

Transmission

- ❖ Municipals = Transmission-Dependent Utilities (TDUs)
 - ❖ Most Operate at Lower Voltages
 - ❖ *Majority @ 34.5kV or Less*
 - ❖ *Numerous Systems @ 12.5 kV*
- ❖ Robust Power Supply Markets Require Transmission Access & Deliverability
 - ❖ Generation Choices Significantly Limited by Transmission Constraints



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Natural Gas



- ❖ 65 Municipal Gas Systems in Kansas
 - ❖ 85% Serve Less Than 1,000 Customers
 - ❖ Largest System = City of Winfield
 - ❖ *5,141 Customers*
 - ❖ Gas Service to These Communities Historically Deemed Unprofitable to Private Companies
 - ❖ More & More Difficult to Operate Small Systems
 - ❖ *Federal Regulations, Written for Large Pipelines, Often Challenging to Implement in Small Gas Systems*

Water

- Each of KMU's 176 Members Operate a Municipal Public Water System
 - 452,000+ Customers
 - Largest: Wichita (138,000 Customers)
 - Smallest: Isabel (67 Customers)
- Water Supplies
 - Surface Water & Groundwater
 - Importance of Promoting Efficient Use of Water Resources





Water

- ❖ Infrastructure Needs
 - ❖ Financing
 - ❖ Aging Systems
 - ❖ Opportunities in Federal Economic Stimulus Packages?
- ❖ Pressure from Increasing Regulatory and Treatment Requirements
 - ❖ Technical Assistance Needs
- ❖ Organizational Cooperation and Partnerships
 - ❖ Interconnection Agreements Between Systems
 - ❖ PWWSDs
 - ❖ Kansas Mutual Aid Program for Utilities (KSMAP)
 - ❖ *KMU*
 - ❖ *KRWA*
 - ❖ *KsAWWA*
 - ❖ *KWEA*
 - ❖ *KCC*
 - ❖ *KDHE*



Wastewater

- ◆ KMU Membership also Operate Wastewater Treatment Facilities
 - ◆ Mechanical Plants
 - ◆ Lagoon Systems
- ◆ Infrastructure Needs
 - ◆ Financing
 - ◆ Aging Collection Systems and Treatment Facilities
- ◆ Pressure from Increasing Regulatory and Treatment Requirements
 - ◆ Increased Engineering and Technical Assistance Demands

