

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Pat Apple at 1:30 p.m. on March 17, 2009, in Room 446-N of the Capitol.

All members were present.

Committee staff present:

Mike Corrigan, Office of the Revisor of Statutes
Melissa Doebelin, Office of the Revisor of Statutes
Cindy Lash, Kansas Legislative Research Department
Ann McMorris, Committee Assistant

Conferees appearing before the Committee:

Doug Louis, Director, Conservation Division, KCC
Ed Cross, KIOGA
Denny Stoecklin, General Manager, Kansas State Fair Board
Doug Rolfs, Director, Retail rates for Westar

Others attending:

See attached list.

Chair opened the meeting and the hearing on:

SB 298 - Requiring well identification signs be placed on or near certain oil or gas wells

Proponents

Doug Louis, Director, Conservation Division, Kansas Corporation Commission, provided background and current status of KCC. He noted the Conservation Division is seeking to change KSA 55-165, in order to require operators to post signs at their wells and provide authority for the Commission to adopt regulations regarding well-identification signs. (Attachment 1)

Ed Cross, President, Kansas Independent Oil & Gas Association, spoke in favor of **SB 298**. KIOGA participates in the Oil & Gas Advisory Committee which reports to the KCC. (Attachment 2)

Chair closed the hearing on **SB 298**.

Chair opened for discussion and possible action on **SB 298**.

Moved by Senator Francisco, seconded by Senator Lee, to change the word "any" to "the" on line 15 of SB 298. Motion failed

Moved by Senator Petersen, seconded by Senator Lee, rules and regulations for SB 298 must be in place in 12 months. Motion carried.

Moved by Senator Reitz, seconded by Senator Petersen, SB 298 be moved out favorably as amended. Motion carried.

Chair opened for discussion and possible action on

SB 299 - Regulation for underground hydrocarbon storage wells.

Moved by Senator Taddiken, seconded by Senator Reitz, to move SB 299 out favorably. Motion carried

Informational Hearing on Electric Rates regarding State Fair Facilities

Denny Stoecklin, General Manager, Kansas State Fair Board, provided information on their upcoming budget and particularly on the energy consumption during the duration of the Fair in September. They anticipate this increase will be around \$200,000 and are not in a position to pass this increase on to their customers. (Attachment 3)

Doug Rolfs, director of retail rates for Westar, explained the peak consumption periods and the background of how these rates were determined for the State Fair..

CONTINUATION SHEET

Minutes of the Senate Utilities Committee at 1:30 p.m. on March 17, 2009, in Room 446-N of the Capitol.

Considerable discussion on how to solve this dilemma. Chair asked the Kansas State Fair Board, the KCC and Westar to confer and come up with a solution.

The next meeting will be on call of Chair.

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

Respectfully submitted,

Ann McMorris
Committee Assistant

Attachments - 3

Senate Utilities Committee
SB 298
Comments by Doug Louis, Director
Conservation Division
Kansas Corporation Commission

March 17, 2009

Chairman Apple and members of the Senate Utilities Committee, I am Doug Louis, Director of KCC Conservation Division. Thank you for the opportunity for me to present testimony in support of and request passage of SB 298.

Background and Current Status

The Commission has been involved in regulating oil and gas exploration and production operations since the mid 1930's. Some of these activities include: licensing oil and gas operators, permitting drilling activities such as "intents-to-drill" and associated pit permits, enforcing proration orders, overseeing well plugging operations, permitting injection well activities, regulating gas gathering, enforcing pit and spill regulations, regulating underground porosity gas storage operators and administering the abandon well plugging program. Staff has developed an expertise with many aspects of the industry's field activities by the nature of enforcing regulations, which are designed to prevent waste of natural resources, protect correlative rights and protect public safety.

Comments / Recommendations - SB 298

The Conservation Division is seeking to change KSA 55-165, in order to require operators to post signs at their wells and provide authority for the Commission to adopt regulations regarding well-identification signs.

The idea is to require operators to identify every well in the field by posting an identification sign at the well. The information on the sign would be: well name, operator's name, emergency contact number and the well's legal location. There are areas in the state where wells are densely located, making well reference difficult without a sign. There are other parts of the state where lease boundaries for adjacent operators are not apparent. In these situations, it is very time consuming to associate the correct operator to a specific well.

In the Oil and Gas Advisory Committee, the Kansas Independent Oil and Gas Association, the Eastern Kansas Oil and Gas Association and the Kansas Petroleum Council expressed the belief; well-identification at the well site would aid their employees and contractors, who work on their wells. The industry has experience with signage, as it has been required

Senate Utilities Committee
March 17, 2009
Attachment 1-1

at their tank-battery facilities for many years. Various operators voluntarily post signs at their wells now.

To build an accurate well inventory for the purpose of tracking responsible parties over time, it is imperative Commission field staff properly identify producing wells in the field. Signs posted at producing wells would also allow staff to quickly identify abandoned wells, which would not have signs. In a recent case before the Commission (to determine the responsible party of a group of abandoned wells), industry leaders testified to the willingness of industry to help staff identify abandoned wells and producing wells. Well signage is a necessary management tool for our regulatory process. Proposed revisions to KAR 82-3-126, requiring well signs, passed unanimously in the Oil and Gas Advisory Committee.

The regulation was approved by the Department of Administration, but the Attorney General's office felt the agency did not have statutory authority to require well identification.

Thank you for this opportunity to provide comment and if the Committee has questions I will be happy to answer them.

Attachments:

Attached are photographs illustrating examples of:

Densely located wells with no signage

Existing signage at tank-battery facilities

Signs installed at well sites

Densely Located Oil Wells

1-3



1-4

Example Of Existing Sign At Tank Battery



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Example Of Well Sign



Example of Well Sign





Example Of Existing Sign At Tank Battery





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Testimony to the Senate Utilities Committee

Senate Bill 298 – Requiring well identification signs to be placed on or near certain oil or gas wells.

Edward P. Cross, President
Kansas Independent Oil & Gas Association

March 17, 2009

Good afternoon Chairman Apple and members of the committee. I am Edward Cross, President of the Kansas Independent Oil & Gas Association (KIOGA). KIOGA represents the interests of independent oil and gas producers in Kansas. We have over 1,400 members from across the entire state and our members produce 86% of the oil and 63% of the natural gas produced in Kansas. We are the lead state and national advocate for Kansas independent oil and gas producers. I am responsible for public policy advocacy and interaction with external stakeholders including elected officials, regulators, governmental decision-makers, and community thought leaders. I am here today to express our support for Senate Bill 298 (SB 298).

The identification of individual oil and gas wells is part of the process of identifying responsible parties to plug those wells. Kansas has identified approximately 7,000 wells which are unplugged for whom the Kansas Corporation Commission (KCC) cannot identify a potentially responsible party. Where an oil and gas operator has abandoned a well prior to plugging, it becomes the responsibility of the State to plug the wells to protect the ground water of the state and to prevent other environmental damage. The plugging of these wells by the KCC is funded through sources largely from current industry participants.

KIOGA has participated in the KCC's Open Docket which was established to address issues arising after the Quest-Cherokee decision in July 2008. Part of the KCC staff's proposals coming out of that investigative docket is to inventory all wells and to better identify who is currently responsible for the plugging of those wells. This would enable the KCC staff to better identify the potentially responsible party should such a well subsequently be abandoned.

KIOGA participates in the Oil & Gas Advisory Committee which reports to the KCC. We concur with the Committee recommendation to seek legislation to allow the KCC staff to better identify the oil and gas wells in the state. As such KIOGA is supportive of SB 298. Thank you.

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March 16, 2009

Senator Pat Apple
Chair, Senate Utilities Committee
State Capitol, Room 242-E
300 SW 10th Ave.
Topeka, KS 66612

Senator Apple and Members of the Committee:

On behalf of the Kansas State Fair Board, thank you for the opportunity to express our concerns about an upcoming budget issue we are facing.

You may recall that about three years ago, a new rate structure was approved for Westar. The new rate structure allowed Westar to set our demand minimum at 50% of the peak usage in June, July, August, or September; the previous rate structure did not include September. Obviously, September is when the Fair takes place and our usage is at its maximum level. Even the 50% demand minimum is significantly higher than our normal usage the rest of the year.

Projections done at that time estimated an increase in our rate, assuming the same consumption, in excess of \$200,000.

To Westar's credit, they have worked with us the past three years with an Interruptible Service Rider and a Capacity Credit Agreement that helped us avoid the majority of this increase.

However, we have been advised by Westar that the Capacity Credit Agreement will not be renewed in April, 2009, when our current agreement expires. Thus, we are again facing an increase of as much as \$200,000 to take effect next spring. This estimated increase does not take into account any approved rate increases that may take place between now and that time, so the actual impact may potentially be larger.

Over the past three years, we have explored alternative energy options – generators, wind, solar, etc. - in an attempt to reduce our peak consumption in September. We have yet to find a cost-effective means to achieve this goal.

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Attachment 3-1

As a fee-funded state agency, an increase of this magnitude will equate to approximately 5% of our overall budget and is going to be very difficult to absorb.

We are not in a position to simply pass this increase on to our customers. Patrons have a choice as to whether they attend the Fair or not. If we increase our admission costs, they may choose not to attend the Fair at all. Renters who utilize our facilities throughout the year can take their events elsewhere if our fees become prohibitive.

We feel strongly the services and programming we offer greatly enhance the quality of life for all Kansans. This significant increase in expenses will undoubtedly jeopardize what we're able to provide and could have the potential to further impact our revenues through reduced attendance, fewer exhibitors, and fewer non-fair events, to name a few.

The Committee's interest in our concern is appreciated. We would be happy to provide any additional information that is needed.

Sincerely,



Denny Stoecklein
General Manager

cc: Kansas State Fair Board

Kansas State Fair

Timeline of events regarding electric bill challenges

March, 2006

The bill we received in March was \$27,387, compared to \$7,949 for the same time period a year ago. Usage was up slightly, but nothing near the extent of the cost.

State Fair contacted Cromwell Environmental to explore alternative energy opportunities.

April, 2006

We had a meeting with Westar on April 12 regarding the new rate structure and its impact on us.

The explanation at that time was that the new rate structure allows Westar to set our demand minimum at 50% of the peak usage in June, July, August, or September; the old rate did not include September. Obviously, September is when the Fair takes place and our usage is at its maximum level. Even the 50% demand minimum is significantly higher than our normal usage the rest of the year.

Westar did a projection based on our last twelve months usage. Under the old rate structure, the cost would have been approximately \$179,343; under the new rate structure, and assuming the same consumption, the rate would be \$391,078, an increase of over \$211,000.

May, 2006

State Fair notified State Budget Director, legislative leadership, and Reno County legislative delegation to make them aware of concerns and potential impact on the Agency's fee fund budget.

State Fair notified the Kansas Corporation Commission of its concerns regarding new rate structure and potential impact on its budget.

On May 1, we met with representative of Cummins to discuss the feasibility of renting diesel generators to help offset the peak. Preliminary estimate to generate 24 hours/day throughout the Fair was \$146,000 for generator rental and fuel (based on May, 2006

diesel cost). This price does not include the cost for cabling and connection to the existing electrical system.

Since Westar's peaks are measured in 15 minute increments, it would be critical for this alternate generation to be reliable. Should it fail and a peak is realized on the grid, there would likely be no savings on the electrical bill plus there would be the added cost of the generation.

We held follow-up meetings with Westar on May 3 and May 10. At one time, they proposed the possibility of us utilizing generators to provide electricity during our peak times, thus shaving the peak and reducing the demand minimum throughout the year. With the cost of generator rental and the fuel to run them, it is questionable how effective this alternative would be.

The May 10 meeting with Westar was held in conjunction with a State Fair Board meeting in Manhattan, KS. At this meeting, Westar presented the idea of a Capacity Reservation Fee the Fair would pay for September as well as the idea of an interruptible rate.

Estimated savings of \$70,000, but could still realize a potential increase of \$140,000 - \$150,000.

This would be on a year-to-year basis and may not be ongoing if other similar customers begin to pursue with Westar.

At a May 31 meeting with Westar we learned a recorder had been stalled at the primary to record the peaks every 15 minutes; the recorder will eliminate human error in reading. The capacity credit agreement will eliminate the September peak issue.

State Fair received a proposal from Cromwell Environmental to install two 50 kW wind turbines, add solar thermal heat to the Administration Building, and install ten 1.8 kW wind turbines. Would address 10% of annual use, but would not significantly shave peak.

State Fair met with portable generator provider.

June, 2006

State Fair met with Entegrity Wind Systems to explore wind generation opportunities. Entegrity proposed three 50 kW turbines (total of 150 kW) at cost of approximately \$465,000. Would address 10% of annual use, but would not significantly shave peak.

July, 2006

State Fair signed the Interruptible Service Rider for 2006.

September, 2006

State Fair staff attended the Renewable Energy Conference

October, 2006

State Fair submitted budget with request for alternative energy enhancements – modest wind generation and solar panels (Administration Building). Enhancements were recommended in the Governor's budget, but not funded by the 2007 Legislature.

November, 2006

State Fair met with West Wind Energy to explore wind generation opportunities

March, 2007

State Fair signed the Interruptible Service Rider for 2007.

September, 2007

State Fair staff attended the Renewable Energy Conference

October, 2007

State Fair submitted budget request for funding for a meteorological tower to better implement potential wind turbine project. Not funded by the 2008 Legislature.

Joined the Reno County Wind Energy Task Force.

November, 2007

State Fair met with Tradewind Energy to explore wind generation opportunities. Opinion of Tradewind the State Fair site may not be appropriate for a large turbine – too much turbulence to achieve optimum efficiency; concerns with ice throw; must pass the economic test for Tradewind to be interested.

February, 2008

State Fair signed the Interruptible Service Rider for 2008.

April, 2008

State Fair met with Westar. Westar confirmed the Interruptible Service Rider and Capacity Credit agreement would be in place for the coming year. Discussion on using a bio-diesel generator to shave the peak; won't be cost effective unless sponsored; return isn't guaranteed, so very high risk proposition. Capacity credit is what generates the savings. KSF should expect an added cost of about \$200,000 without the Capacity Credit agreement.

June, 2008

Westar notified the State Fair the Capacity Credit agreement will not be renewed when the current agreement expires in April, 2009. Without the Capacity Credit agreement, KSF should expect rate increase of about \$200,000. There is the potential for this to be greater pending the outcome of Westar's rate case that has been filed with the KCC. It is also expected Westar will file for an additional increase in 2009.

State Fair contacted the Kansas Corporation Commission, State Budget Director, Legislative leadership, and Reno County legislators of Westar's plans to discontinue Capacity Credit agreement and the potential impact on the agency's budget,

KSF received response from KCC encouraging the Fair to continue exploring methods to reduce its peak load. The letter also stated "termination of the bridge capacity agreement for backup capacity to avoid interruption will have no revenue effect if the Kansas State Fair remains on MGS coupled with the ISR".

State Fair met with Kansas Gas and Cummins to revisit possibility of diesel generation to shave peak. Based on 2008 diesel fuel prices, fuel cost alone could be as much as \$259,200.

August, 2008

Met with Westar due to questions raised in KCC's response to State Fair letter. KSF questioned the difference between the Bridge Capacity agreement referenced by the KCC and the Capacity Credit agreement that has been in place. Provided a copy of the KCC's response to Westar representative to get clarification.

October, 2008

Learned from Westar usage during the 2008 State Fair was down just over 100,000 KWH from 2007.

State Fair responded to KCC's June, 2008 letter with the following: "While we do plan to remain on MGS coupled with the ISR, Westar has assured us and provided us with scenarios that indicate we should expect a sizable increase to take effect, possibly as early as May, 2009. The increase, assuming no increase in consumption, is estimated to be as much as \$162,000 annually. Thus, we do anticipate a significant revenue effect as a result of the change."

In addition, State Fair asked of the KCC if "consideration could be given at some point to a special tariff that better accommodates users such as the State Fair, grain elevators, asphalt plants, golf courses, etc., that experience a seasonal peak? What steps would we need to take to request such a tariff for future consideration?"

To date, no response has been received from the KCC to this inquiry.

February, 2009

State Fair questioned billings from Westar. While consumption fiscal year to date is down 5.2%, costs to the Fair are up 19%.

March, 2009

State Fair met with Westar as follow-up to February, 2009 inquiry. Information is accurate.

Westar also advised State Fair it is likely a filing will be made in the near future to increase the Transmission Delivery Charge. It's also likely another rate increase will be filed by the end of 2009.

The attached information provides a snapshot of the challenge the Kansas State Fair faces in regards to its electrical use.

There is three years worth of data that shows the State Fair's electrical peak throughout the year and in the course of the ten days of the State Fair.

You can see the peak reached during the Fair is usually in the neighborhood of 4,000 KW. The Fair's Demand Minimum for the remainder of the year is then set at one half this peak amount, or approximately 2,000 KW.

As you can see, at no other point throughout the year does our demand even exceed 1,000 KW, thus forcing us to pay for a significant amount of electricity that we aren't using.

We have been and continue to explore ways to shave this peak reached during the Fair. The peaks are measured in 15 minute increments, so it's critical whatever method that's used be reliable and effective in reducing the peak. Should an alternate method fail for only 15 minutes, we would risk peaking on the grid and realize no savings for the coming year. Actually, our costs would likely be greater as our electrical bill would not be lowered and we'd have the cost of the added alternate generation.

We have been in contact with the Kansas Corporation Commission, but don't anticipate any relief. In our last communication to them, we requested information as to how a new tariff could be established for seasonal users such as the Fair, grain elevators, golf courses, etc., but have not had a response to that inquiry.

Customer Information

Name: KANSAS STATE FAIR
Address: 2000 N PLUM ST
HUTCHINSON
Acct. No: 8730820236
Meter No: 05677644

*10% KW DEMAND
2 CK WH*

Tue Jan 1 2008 to Mon Dec 29 2008

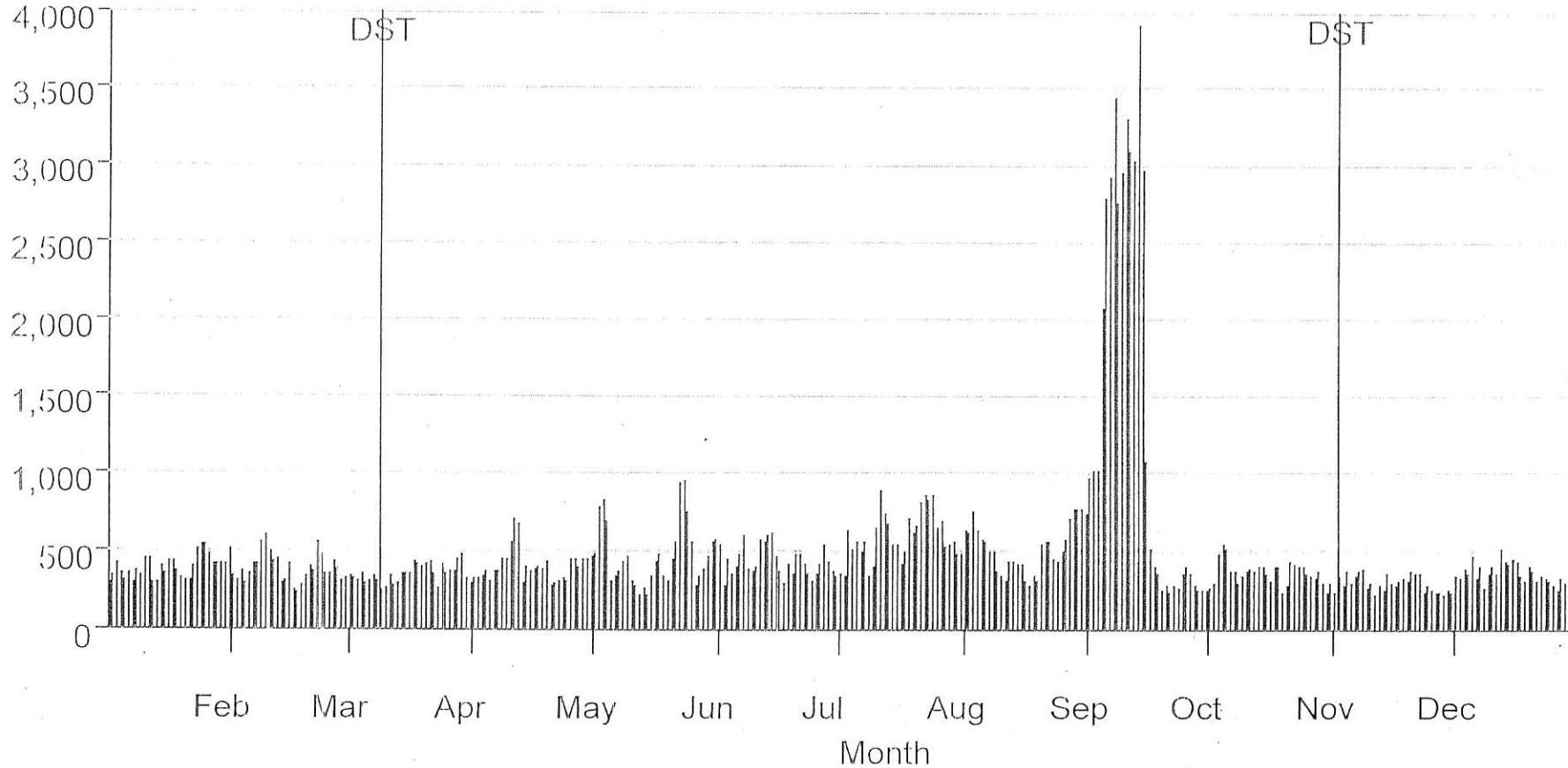
Total Usage: 3,129,686.76 KWH
Max Demand: 3,913.92 KW
Occurred On: Sep 13 2008 17:30
Load Factor: 9.166%
Date Range: Jan 1 To Dec 29

3-9

KW (channel: 1 Set: 0)

Daily Peaks

40100



Customer Information

Name: KANSAS STATE FAIR
Address: 2000 N PLUM ST
HUTCHINSON
Acct. No: 8730820236
Meter No: 05677644

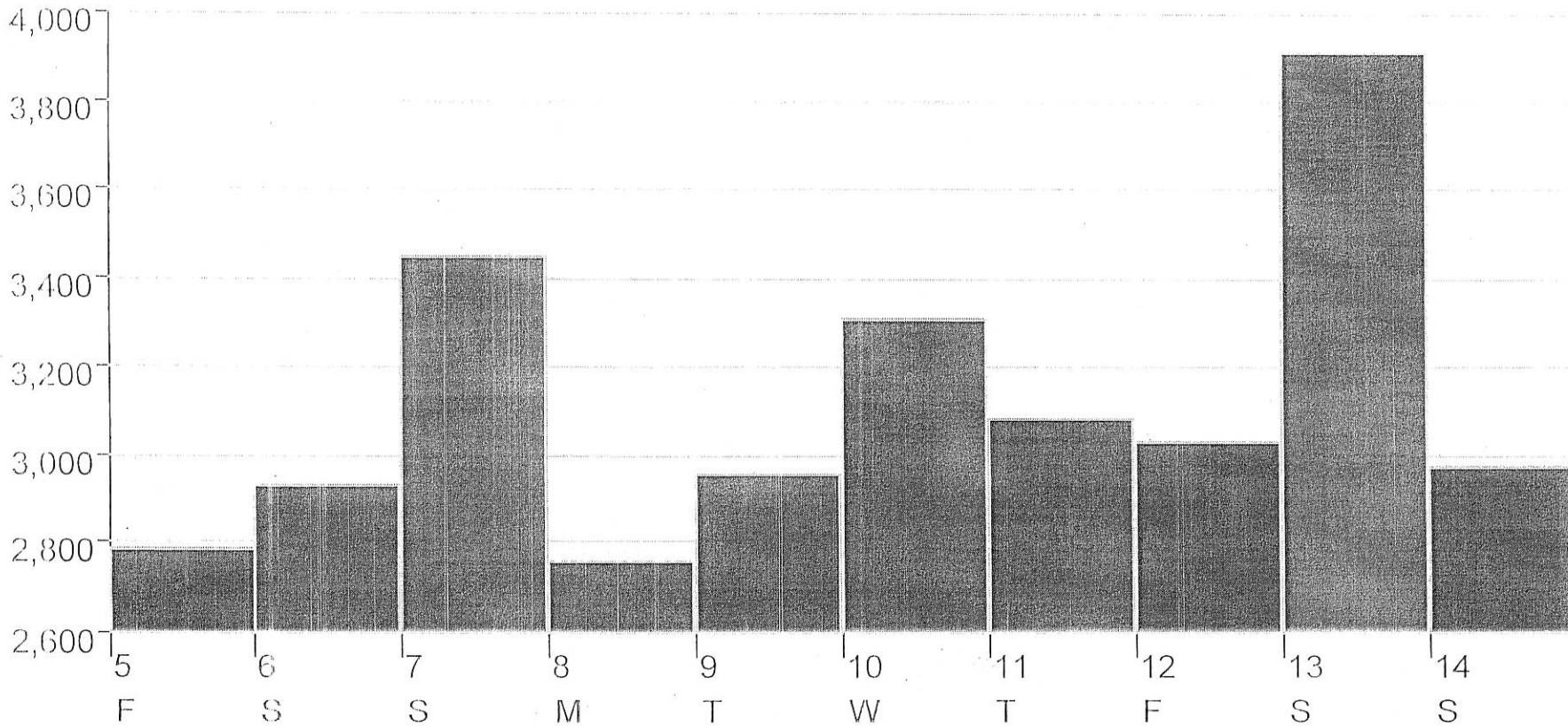
Fri Sep 5 2008 to Sun Sep 14 2008

Total Usage: 536,699.54 KWH
Max Demand: 3,913.92 KW
Occurred On: Sep 13 2008 17:30
Load Factor: 57.136%
Date Range: Sep 5 To Sep 14

KW (channel: 1 Set: 0)

Daily Peaks

40100



Peaks Report : Fri Sep 5 2008 - Sun Sep 14 2008

Customer: KANSAS STATE FAIR
 Address 2000 N PLUM ST
 HUTCHINSON
 Acct. No 8730820236

Meter ID 40100
 Meter No 05677644
 Total Usage 536,699.54
 Load Factor 57.136%

Peak	Date/Time	KW	Peak	Date/Time	KW
1	Sat Sep 13 2008 17:30	3,913.92	6	Sat Sep 13 2008 16:45	3,862.08
2	Sat Sep 13 2008 18:00	3,913.92	7	Sat Sep 13 2008 17:00	3,862.08
3	Sat Sep 13 2008 17:45	3,905.28	8	Sat Sep 13 2008 16:15	3,853.44
4	Sat Sep 13 2008 17:15	3,879.36	9	Sat Sep 13 2008 18:15	3,853.44
5	Sat Sep 13 2008 16:30	3,862.08	10	Sat Sep 13 2008 18:30	3,784.32

3-12

Customer Information

Name: KANSAS STATE FAIR
Address: 2000 N PLUM ST
HUTCHINSON
Acct. No: 8730820236
Meter No: 05677644

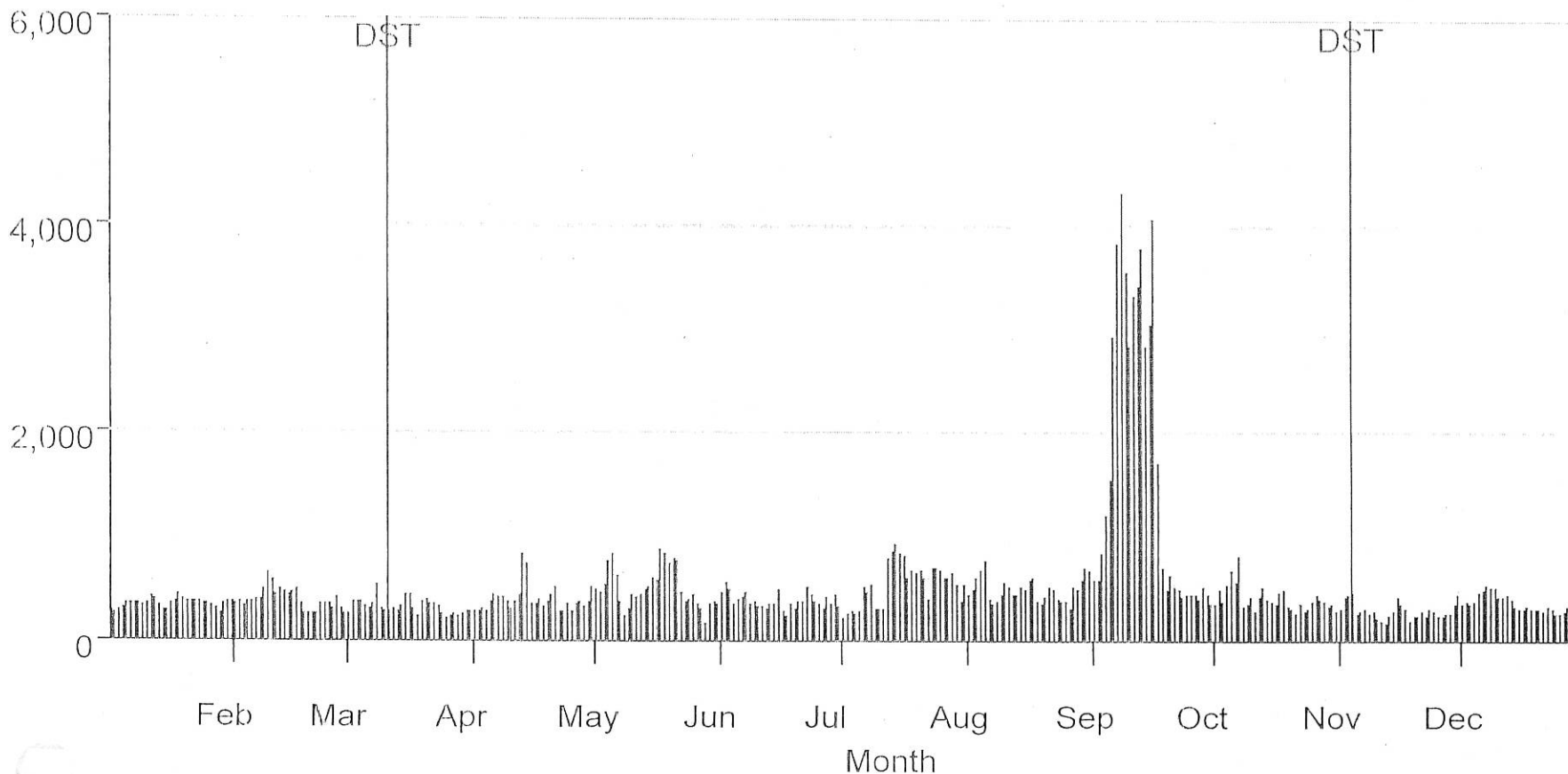
Mon Jan 1 2007 to Sat Dec 29 2007

Total Usage: 3,151,846.21 KWH
Max Demand: 4,311.36 KW
Occurred On: Sep 8 2007 16:30
Load Factor: 8.391%
Date Range: Jan 1 To Dec 29

KW (channel: 1 Set: 0)

Daily Peaks

40100



3-13

Customer Information

Name: KANSAS STATE FAIR
Address: 2000 N PLUM ST
HUTCHINSON
Acct. No: 8730820236
Meter No: 05677644

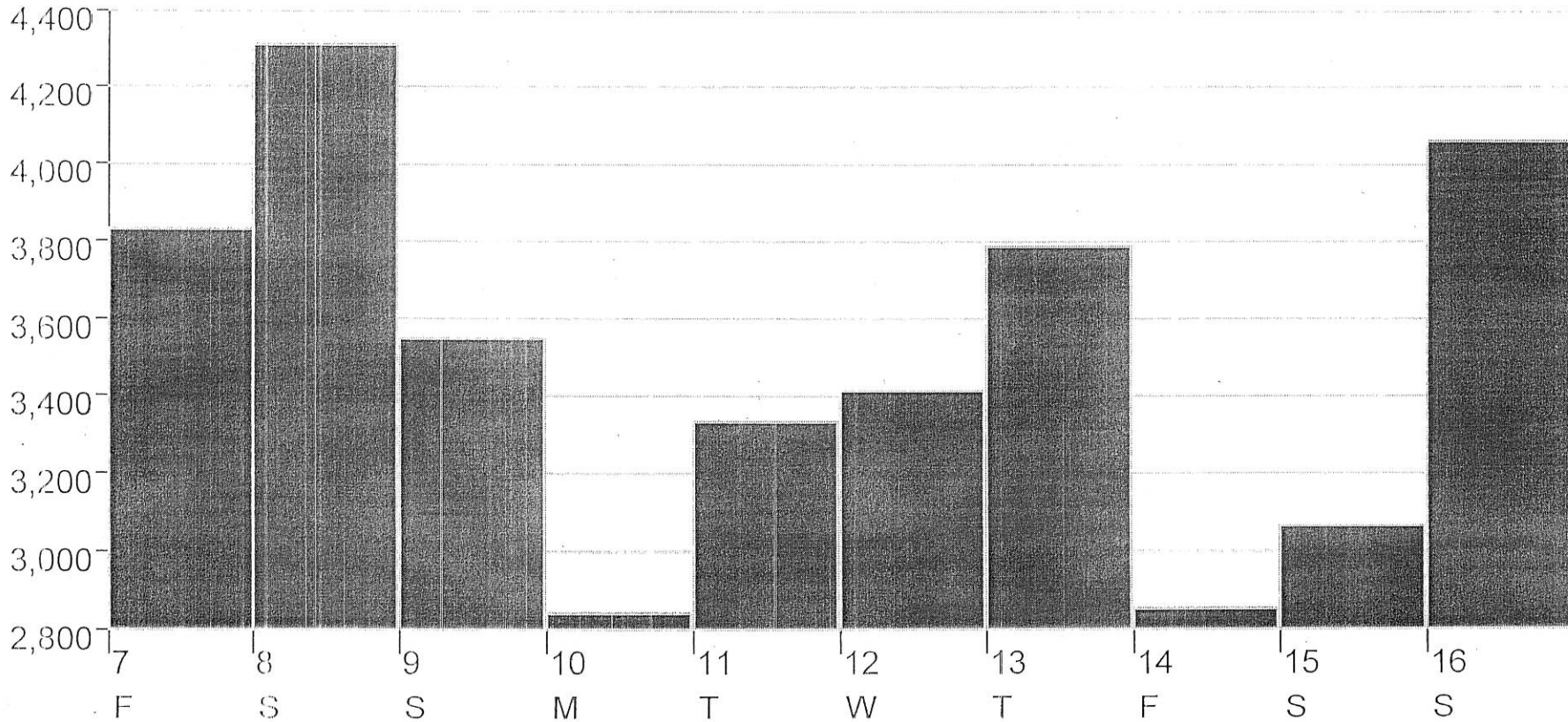
Fri Sep 7 2007 to Sun Sep 16 2007

Total Usage: 587,900.18 KWH
Max Demand: 4,311.36 KW
Occurred On: Sep 8 2007 16:30
Load Factor: 56.817%
Date Range: Sep 7 To Sep 16

KW (channel: 1 Set: 0)

Daily Peaks

40100



3-14

Peaks Report : Fri Sep 7 2007 - Sun Sep 16 2007

Customer KANSAS STATE FAIR

Meter ID 40100

Address 2000 N PLUM ST
HUTCHINSON

Meter No 05677644

Total Usage 587,900.18

Acct. No 8730820236

Load Factor 56.817%

Peak	Date/Time	KW	Peak	Date/Time	KW
1	Sat Sep 8 2007 16:30	4,311.36	6	Sat Sep 8 2007 18:15	4,268.16
2	Sat Sep 8 2007 16:45	4,302.72	7	Sat Sep 8 2007 17:00	4,259.52
3	Sat Sep 8 2007 17:45	4,302.72	8	Sat Sep 8 2007 17:15	4,259.52
4	Sat Sep 8 2007 18:00	4,302.72	9	Sat Sep 8 2007 15:00	4,242.24
5	Sat Sep 8 2007 17:30	4,268.16	10	Sat Sep 8 2007 15:15	4,224.96

3-15

Customer Information

Name: KANSAS STATE FAIR
Address: 2000 N PLUM ST
HUTCHINSON
Acct. No: 8730820236
Meter No: 05677644

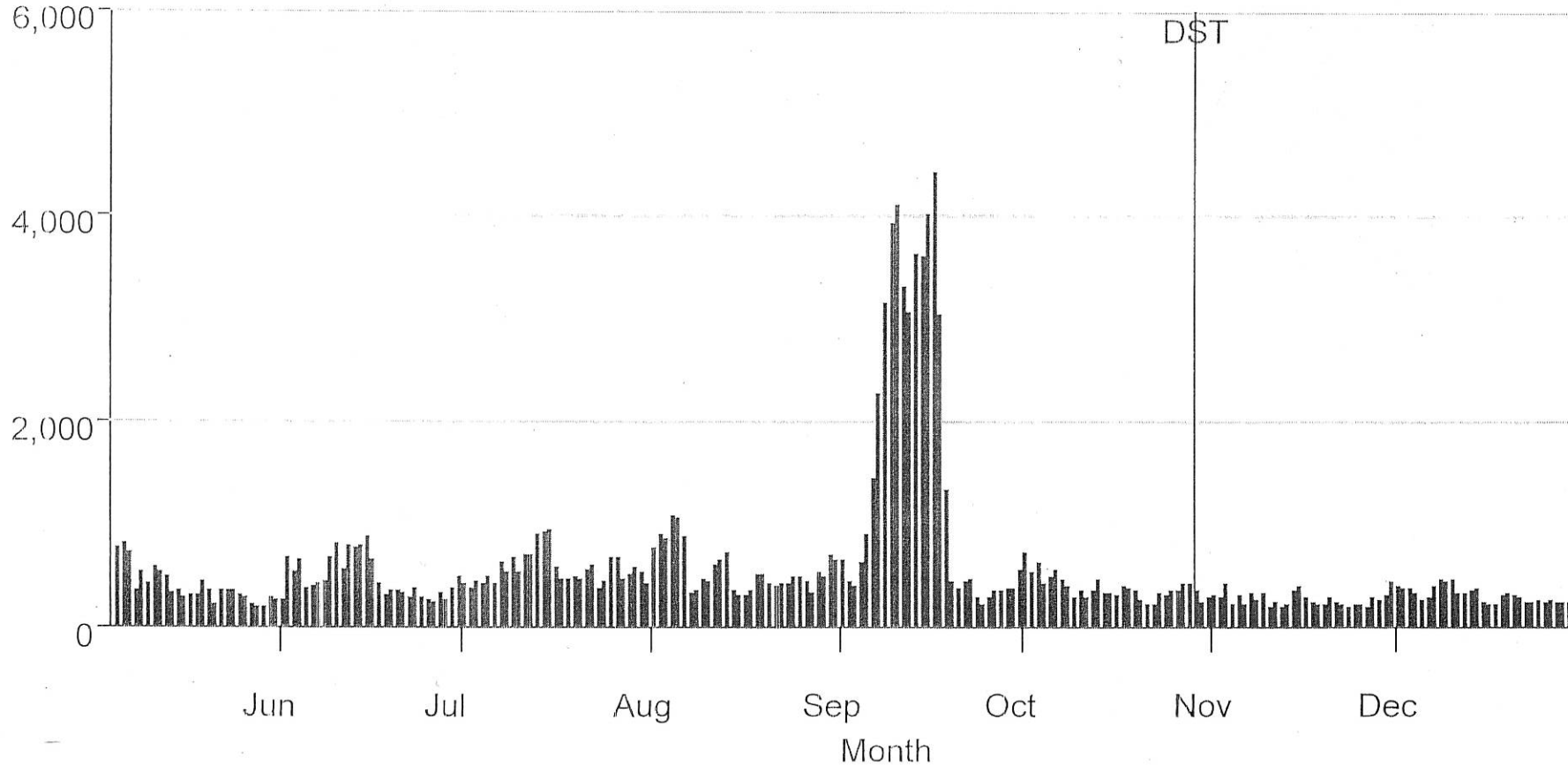
Thu May 4 2006 to Fri Dec 29 2006

Total Usage: 2,282,463.45 KWH
Max Demand: 4,432.32 KW
Occurred On: Sep 16 2006 16:30
Load Factor: 8.940%
Date Range: May 4 To Dec 29

KW (channel: 1 Set: 0)

Daily Peaks

40100



Customer Information

Name: KANSAS STATE FAIR
Address: 2000 N PLUM ST
HUTCHINSON
Acct. No: 8730820236
Meter No: 05677644

Fri Sep 8 2006 to Sun Sep 17 2006

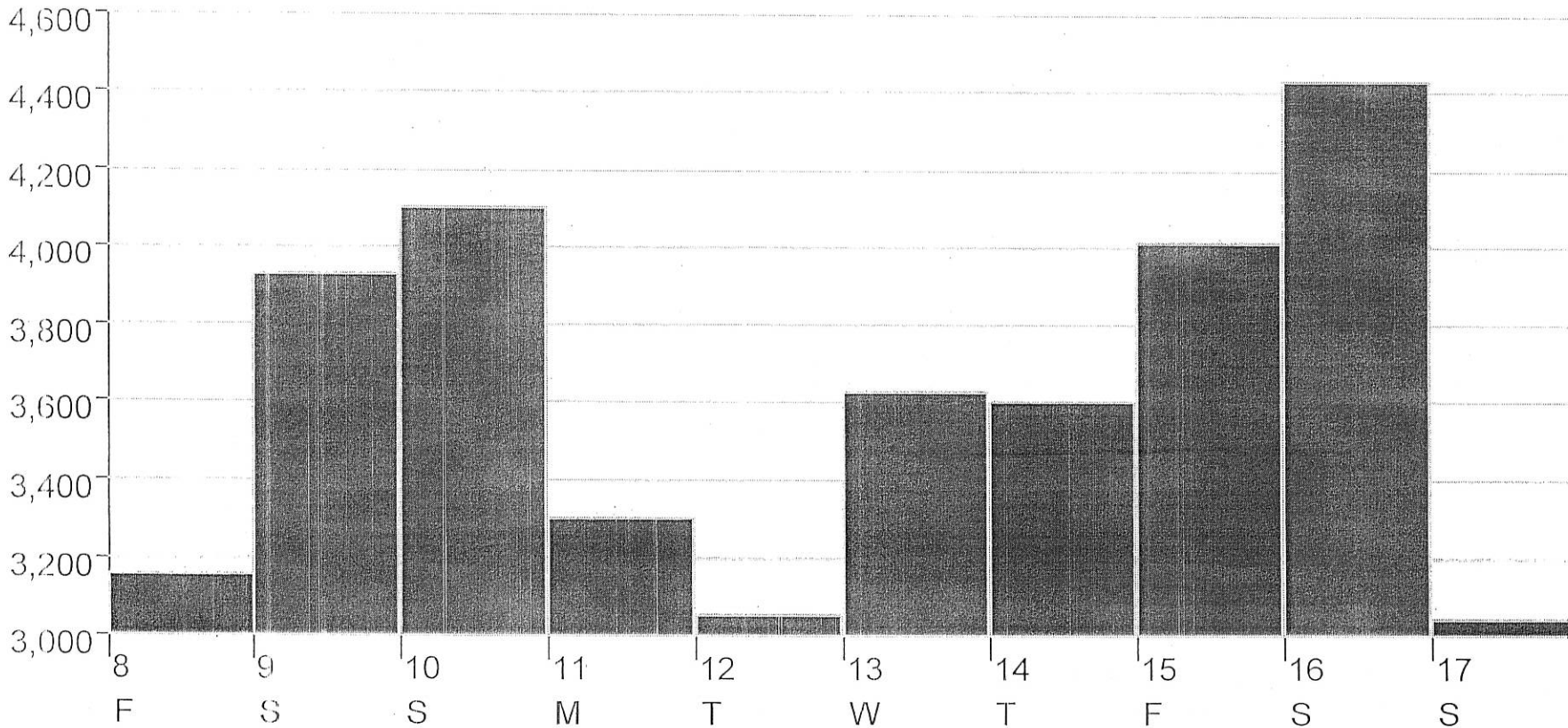
Total Usage: 607,154.42 KWH
Max Demand: 4,432.32 KW
Occurred On: Sep 16 2006 16:30
Load Factor: 57.076%
Date Range: Sep 8 To Sep 17

3-16

KW (channel: 1 Set: 0)

Daily Peaks

40100



3-17

Peaks Report : Fri Sep 8 2006 - Sun Sep 17 2006

Customer KANSAS STATE FAIR
Address 2000 N PLUM ST
HUTCHINSON
Acct. No 8730820236

Meter ID 40100
Meter No 05677644
Total Usage 607,154.42
Load Factor 57.076%

Peak	Date/Time	KW	Peak	Date/Time	KW
1	Sat Sep 16 2006 16:30	4,432.32	6	Sat Sep 16 2006 17:15	4,415.04
2	Sat Sep 16 2006 16:00	4,423.68	7	Sat Sep 16 2006 17:30	4,389.12
3	Sat Sep 16 2006 16:45	4,423.68	8	Sat Sep 16 2006 15:00	4,380.48
4	Sat Sep 16 2006 16:15	4,415.04	9	Sat Sep 16 2006 15:15	4,380.48
5	Sat Sep 16 2006 17:00	4,415.04	10	Sat Sep 16 2006 15:30	4,380.48