

MINUTES OF THE SENATE UTILITIES COMMITTEE.

The meeting was called to order by Chairperson Sen. Pat Ranson at 1:30 p.m. on January 19, 2000 in Room 531-N of the Capitol.

All members were present except:
Sen. Hensley was excused

Committee staff present:
Lynne Holt, Legislative Research Department
Mary Torrence, Revisors of Statute Office
Jeanne Eudaley, Committee Secretary

Conferees appearing before the committee:
Jeff Wagaman, Executive Director, Kansas Corporation Commission
Larry Holloway, Acting Utility Division Director, Kansas Corporation Commission

Others attending:
See attached list

Sen. Ranson welcomed Jeff Wagaman, the new Executive Director of the commission, who spoke briefly to the committee. He then introduced other new commission staff members: Leo Haynos, Supervisor of Natural Gas Pipeline Safety and Janette Luehring, Chief of Telecommunications; he acknowledged Glenda Cafer, General Counsel and Tom Day, Legislative Liaison, both of whom have appeared before the committee. Mr. Wagaman introduced Larry Holloway, Acting Director of Utilities, who gave a status report to the committee.

Mr. Holloway began his presentation with brief remarks, noting that the KCC closed approximately 80% of the dockets opened in calendar year 1999. He called attention to a status report on KCC Utility Dockets (Attachment 1) and distributed the following documents to the committee:

1. Activities Update of the Kansas Corporation Commission-Utilities Division (Attachment 2)
2. Kansas Corporation Commission; Weekly Sections-Electric, January 14, 2000(Attachment 3).

The following documents were distributed to the committee and are available from the Kansas Corporation Commission:

1. Kansas Electric Utility Information, January 2000
2. Map depicting Kansas Average Electric Rates Cost per KWh
3. Map of certified areas of Retail Electric Suppliers in Kansas
4. Map of certified areas of Natural Gas Public Utilities in Kansas.

Mr. Holloway called the committees' attention to Docket No. 97-WSRE-676-MER, Application of Western Resources to Acquire KCPL. The KCC approved the merger on September 28, 1999, and the Order contained stipulations, which he outlined to the committee. In December, 1999, the City of Wichita appealed the KCC Order to the Shawnee County District Court, citing lack of rate parity. On January 3, 2000, KCPL terminated the agreement and Western Resources withdrew its application. Mr. Holloway pointed out that it is anticipated a resolution of the case before Shawnee County District Court will be forthcoming.

Mr. Holloway stated that Docket No. 99-GIME-321-GIE, Investigation of Adequacy of Future Kansas Electric Generating Capacity, was opened in November, 1998, to investigate future Kansas generation. A Southwest Power Pool report indicated that Kansas' utilities would not have adequate generation capacity to assure reliable service by the year 2002. Mr. Holloway stated they investigated all utilities in the state, which included approximately 120 municipals and 30 some coops, and covered 98-99 percent of the utilities in the state. Mr. Holloway stated the response was outstanding, and the Commission's Order of August 3, 1999, concluded Kansas has adequate generation capacity through 2005. Mr. Holloway went over the Commission's Order that stipulated (1) utilities file semiannual statements of material obligations and commitments that could affect their ability to provide electric service to retail customers; and (2) directed staff to open a docket to determine Commission's role in public appeals for conservation; whether the Commission should adopt rules or guidelines for public appeals for

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conservation.

Sen. Ranson asked questions regarding the status of the generation capacity and if it is adequate to the year 2005, and Mr. Holloway assured her that the latest report shows the reliability of the entire system, which includes all wholesalers and meets more than the adequate margin. Sen. Steffes asked questions regarding excess power in the state and transmission capabilities and whether they are in place. Mr. Holloway answered that the transmission facilities, which are in place, comprise a complex system; and that power is traded back and forth regionally, which makes it difficult to determine the effects. In answer to questions from Sen. Salisbury, Mr. Holloway explained the 2 to 3 year plan projections and that the Southwest Power Pool was a 9- year study, with a time frame projection to 2005.

Mr. Holloway continued by reviewing siting applications by Kansas utilities for generation capacity, and the fact that the Commission determined that Empire Electric Company did not need a filing permit. Mr. Holloway referred to the summary of those dockets on Page 13 of the Activities Update. Mr. Holloway explained the docket and application of Southwestern Public Service Company for construction of a 345 kV transmission line, which includes construction in the states of Texas, Oklahoma, Kansas and Colorado under the Transmission Siting Act. It includes construction from north of Amarillo, Texas, to the Sunflower Electric Power Cooperatives Holcomb Generating plant, and includes a DC intertie to the Western Grid in Lamar, Colorado. The application requested permission to construct approximately 153 miles of 345 kV transmission lines within Kansas. In July, 1999, the Commission issued an Order finding that (1) the proposed line is necessary and in the public interest, (2) the location of proposed line is reasonable, and (3) SPS used an appropriate planning process involving the public to evaluate alternative routes and to choose the proposed route. The Order approved Southwestern Public Service's application for a siting permit, subject to the condition that SPS continue to demonstrate flexibility in working with affected landowners. Sen. Ranson asked questions regarding complaints from the landowners.

Mr. Holloway continued by explaining the investigation into public appeals for conservation, which came out of a round-table discussion, and impacts regional problems dealing with the security and ability of the grid, and whether the Commission should adopt requirements or guidelines dealing with the problem. Mr. Holloway briefly discussed the docket dealing with WestPlains Energy over justification of existing rates, which was heard in December with the Commission Order expected this week.

Mr. Holloway called attention to the natural gas dockets, and the investigation into distribution of Ad Valorem tax refunds for interstate pipeline direct sales customers. This matter, which was required by FERC, involves monies from Kansas producers paid to interstate pipelines who have made refunds to local distribution companies. Interstate pipelines made direct retail sales to end use customers, and the direct retail sales were not subject to FERC jurisdiction. A procedural schedule has been proposed by the KCC, but Williams Pipeline and several other interstates have opposed it while they continue to dispute KCC jurisdiction in the Court of Appeals. Monies returned to the LDCs are being held in interest bearing accounts pending litigation. Sen. Ranson stated the committee has heard testimony on the Ad Valorem tax issue and will set aside additional time for the issue; Sen. Morris indicated his interest in pursuing the subject.

Mr. Holloway referred to a generic docket regarding benefits of a restructured natural gas market and should it be extended to all retail customers. The Commission found it would be most productive to develop changes and identified two areas to pursue: (1) change the way LDCs acquire and purchase gas on behalf of retail customers and (2) allow retail customers to purchase gas from a set of multiple providers on their own behalf. The Commission adopted a proposal by the Kansas LDC Group to proceed with a natural gas retail choice pilot program and suggested that Midwest Energy develop a pilot program for all retail natural gas customers in Hays, Kansas, which would allow them to directly purchase and transport natural gas. Midwest Energy has not yet developed this proposal in any detail.

Mr. Holloway also explained a general docket regarding performance based ratemaking for LDCs, focusing on the LDCs purchasing practices and the selection of an index which most accurately reflects the gas market for that utility and how to implement the mechanism. Sen. Clark questioned who would profit from such an index, and if the profits would pass through to the customers. Mr. Holloway pointed

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out that gas purchasing decisions made more often are hard to audit; also, finding an index which is agreeable to all parties, is difficult.

Mr. Holloway briefly referred to an application regarding Kansas Gas Service Company to assign long-term contracts to an affiliate and make modifications to purchase costs and other tariffs. He explained the objective is to give risks to the affiliate. Another docket is the application of UtiliCorp to change its ratebase, due to Y2K compliance, and to have more flexibility to accommodate industry restructuring. That Hearing is scheduled for May, 2000, with an Order due in June of 2000.

Sen. Morris asked questions regarding the take or pay project, which Mr. Holloway stated is not a major issue. Sen. Barone then asked for information regarding the Kansas Gas Service weatherproof tariff. Mr. Holloway stated it is a tariff based on past usage and weather conditions. He also stated it involved an administrative fee and that the customer should be aware that he/she is paying a premium. It is a plan causing concern and customer complaints. Sen. Ranson stated the committee will hear more on the weatherproof tariff in the future. Sen. Steffes asked questions regarding electrical consumption, if we are depleting our resources and incentives for conservation. Mr. Holloway answered that the public is consuming more than in the past.

Sen. Ranson stated the committee will ask for more information on issues discussed today and thanked Mr. Holloway for his presentation. She also announced the committee will have a wind generation presentation tomorrow.

Meeting adjourned at 2:30.

Next meeting will be January 20.