

Kansas Energy Council Minutes, September 20, 2004

The meeting was called to order at 10:10 a.m., Monday, September 20, 2004, in the Second Floor Hearing Room of the Kansas Corporation Commission, 130 S. Market, Wichita, Kansas, by KEC Chair Lee Allison.

KEC members present:

Lee Allison, KEC Chair
Brian Moline, KEC Vice Chair
Richard Anderson
Sarah Dean
Spencer Depew
David Dayvault
Steve Dillard
Greg Krissek
Donna Johnson

Stuart Lowry
Galen Menard
Gene Merry
Richard Nelson
Carole Jordan (for Adrian Polansky)
Bruce Snead
David Springe
Michael Volker

Opening comments

Allison welcomed Stuart Lowry as the newest member of KEC and introduced Carole Jordan, sitting in for Secretary Polansky.

Allison discussed new role as one of the Governor's policy advisors, working on energy and science issues full time. In addition to his role as KEC Chair, he also serves as Science and Energy Advisor. The governor established this group, made up of senior staff and cabinet members to develop statewide policy, bringing energy into inner circle, raising profiler.

Allison noted that he made his first formal presentation last Thursday at cabinet meeting with Governor; he referred to two handouts—"KS Energy Challenges" and "Energy Policy in Kansas"—that he used in this presentation, which he said was well received. Allison also mentioned a letter he'd sent to the Governor, outlining the 10 recommendations from the Wind and Prairie Task Force report and progress underway on recommendations and noted that the Governor had issued a press release commending the energy council on its work [KEC members had copies of the letter and the press release].

Lee emphasized the importance of the Flint Hills mapping project currently underway (joint project between DASC and the Bio Survey at KU), and said there would be a presentation of the final set of maps at the October meeting. Michael Volker and Richard Nelson are co-chairing the renewables incentives committee to develop a package of incentives to go along with the map. The Governor's sub-cabinet will make the recommendations about the areas that would not be eligible for the incentives. Hope to have all these to bring to council next month.

Richard Nelson reminded everyone that the Oct. 19 meeting will be held at the K-State Alumni Center, with free parking at Alumni Center for KEC members and staff. Just

come in the front door and sign in. Bruce Snead added that there was also parking available on the west side of the building.

David Springe voiced concerns about the Oct. 12 “summit” between KEC and KCC mentioned in Lee’s handout, asked if this would be an open meeting. Lee said that his use of the word “summit” was probably not accurate, that this was essentially a meeting to sit down with the Governor, KCC staff and commissioners to clarify the roles the KEC and the KCC play, to make sure we’re working together with other agencies and understand where we’re going.

Brian Moline said the KEC plays a passive role, can't take public position; have to be careful about what we get into. We can visit with Governor and anyone else on policy issues. Put into mix what we know will be issues for energy council over next 2 years.

Allison asked for approval of August minutes, and Brosius noted that the hard copy they’d passed out didn’t reflect the revised electronic version because she hadn’t sent it to Debbie before printing. Dillard asked if we’d ever cleared up who had seconded the motion on p. 9, and Bruce Snead said he thought he had. Spencer Depew moved to approved the minutes, Donna Johnson seconded; motion passed.

Discussion of September 8th Kansas Electric Transmission Summit II

Allison noted that the summit was well attended, and thanked the KEC members who attended as well as those who were not able to attend because of the limited seating. Noted that the powerpoint presentations were posted on the Johnson’s renewables web site and would be linked to the KEC web site soon. Allison said he’d asked Scott White to give an overview of the summit and then we’d have a broader discussion of transmission issues, try to bring everyone up to speed on some of the basics.

White said the take-home message was that electrical transmission is a very complex issue, not one that a single organization or group can solve, involves lots of coordination. The state, RTOs, Southwest Powerpool (SPP), and FERCC need to sign off on any plan. Questions arise for new transmission—who pays for it? Not a simple question; the people that build are not only ones to use. Pat Wood, Chair of FERCC gave keynote, gave background on FERCC. Transmission is issue in Kansas, have bottlenecks, on edge of local grid, can't connect to Colorado. When Kansas wants to expand markets, no easy way to move power, new transmission or connect with other transmission. Wood, a self-proclaimed free market guy, said there may be reasons to provide incentives for wind business. The CEO of SPP, our local RTO, suggested that paying for transmission could cost as little as a can of soda a month.

Moline: That doesn't include cost of administration.

White summarized the two breakout sessions—one for decision makers, and one for the worker bees, who work on issues on a daily basis. CEO session spent lot of time on transmission bottleneck in Kansas, near Hutchinson. Other breakout looked at paying for

transmission, seams in network, who can be a utility. Nothing solved but had good questions. White opened the discussion up for comments and questions.

Gene Merry raised the question of where is the demand, both within and outside of state, that we are going to ship to? He also said that building new transmission was not going to be easy on the local level. Can you imagine running transmission lines across the Flint Hills like they had to when Wolf Creek came online?

Allison asked about demand for electricity in the state. Richard Anderson said that demand is on increase, and utilities are planning how to meet this demand.

Allison asked how far out will our transmission carry us, and Anderson said we can't really know until we make an application to the SPP.

Moline expressed concerns about the FERC RTO plan, that it could make a huge change in the way people get and pay for electricity. The issue is how to pay for new transmission. About 20 states have deregulated retail sales and in order to politically sell that, they reduce rates, then deregulate. Costs have been building up. The FERC plan only works for what they want—a vibrant wholesale market. That means that when they get there, all generation goes into the bid market, so Kansas could be in a position to bid on the wholesale market to buy back the power we generated. Moline said he kept raising these issues in SPP, but kept getting told they will sort them out later. The decision to become a RTO has been made, not going to change. Larry Holloway is participating in the cost allocation working group. They're trying to come up with fair allocation.

Anderson asked if anyone asked what is motivating this?

Moline: Have groups looking at huge markets. Political motives. Decision has been made, the only thing KCC has said is that any attempt by any of our utilities or RTO to join SPP, we need to approve it. Will be a while.

Volker noted that during the summer Midwest Energy had two out of four power lines down and we're sweating whether they'd be able to meet demand on a hot July day. Said they were able to maintain system capability because of a plant went down in Nebraska. This story illustrates how extraordinarily complicated the electrical generation and transmission issues are. How to pay, how to allocate? Volker said Moline was justified in being scared.

Springe observed that there's a fallacy in the idea that removing constraints will result in cheaper and more plentiful power. He also noted that the statement that we could build all our transmission for the cost of a soda a month is unreasonable. Transmission upgrades in southwest Kansas are estimated to cost \$400 million. Who is going to pay? This would have a severe impact on consumers bills.

Moline noted that there's a tendency to discuss this in isolation, price of transmission may go down, need to discuss in terms of generation.

Allison noted that the state has two different powerpools and others said this was not uncommon.

Allison brought up the example of Illinois, suggested there might a role for KEC to be involved in something similar and asked the Utilities Committee to consider. Merry asked how Illinois plan worked, are you talking about buying out those incumbents?

Anderson asked who had authority over FERC? Moline said Congress did, but the present administration is committed to the RTO project, it's too far along to change, and we've been told to work it out.

Moline said he was around the KCC when Wolf Creek went into operation and remembered the expert witness for the company describing a cross over point that was built into prices, where the capital costs would be paid off and electricity from nuclear plant would be cheapest in country. If that is true, think about what the outcry is going to be if we generate it and then have to bid for it.

Allison noted that there are policy issues here, may be role for council to get more involved. Advise governor or congressional delegation about what's best for Kansas. Ask Utilities Committee to talk about in breakout.

Energy efficiency and conservation

Allison introduced Bruce Snead to begin discussion on energy efficiency and conservation, a subject that cuts across all energy sectors.

Snead passed out copies of the handout he circulated at the last meeting: Recommended Steps as Part of a Comprehensive Energy Efficiency and Conservation Program for Kansas, his personal page of comments on KEC mission and charge.

Snead noted that in the previous discussion of transmission issues, the potential for energy efficiencies across all areas was not mentioned. Energy efficiency is a fundamental component of sustainability. Sustainability is the efficient use of resources, finances, energy, human resources. The logic of efficiency is apparent: it's much cheaper to save energy than to build new generation. No question that there is more potential for energy efficiency across the board in many different sectors.

Snead discussed the ideas for energy efficiency and conservation outlined in his handout. In terms of state energy efficiency programs, there are 3 general models: (1) state government model, (2) utility model (e.g., DSM), and (3) the energy efficiency utility, which Vermont recently created (Efficiency Vermont—www.encyvermont.org/). Snead said that California was another important state to look to for help with energy efficiency—on October 1, the California Energy Commission will post their study of

exemplary energy efficiency programs, on which we could base recommendations for Kansas programs.

Snead noted that Kansas ranks close to the bottom in U.S. in investments in energy efficiency. Vermont is cutting load growth rate by 50%. Anderson clarified that this was the rate of growth, not a 50% drop in overall load.

Anderson asked if emphasis on limiting electricity growth didn't curtail business expansion in Vermont, as they will drive up the growth of load? John Moore said that it was balanced with more efficiency.

Moore asked what are the typical investments that states make and what do these account for? Snead said these investments fund utility and non-utility programs, appliance rebates, loans, industrial lighting. Snead said that energy efficiency is not represented by any one group or entity in Kansas; there are no vested interests that stand out. Some programs have not been successful, and there many reasons why. These programs require sustained effort.

Volker asked where is the market failure? Why wouldn't anyone want to save on energy bill? Said he disagreed with Bruce that companies don't conserve; all companies are working on conserving energy and energy conservation. Biggest thing is to go out and do public education. Also put reverse spin, especially on electricity. More than economic incentives imbedded. There are a lot of reasons why Kansas electrical bills are lower than other states. If you raise prices, you'll lower growth rate. There are economic opportunities for energy conservation, biggest problem we see is the lack of education. It's worthwhile investing in education.

Dean asked how new building codes compare to retrofitting old buildings? Volker said he thought codes for new buildings made sense versus making someone go through and redo building.

Allison asked if the money they spent for education is recovered? Volker said it was.

Springe raised question of collecting funds on consumer's electric bills and emphasized that there has to be a sensible economic component. To spend \$16 million to save 16 MW, for example, is not a responsible use of consumer's money. There is price elasticity on demand. Consumers conserve when prices go up. Springe said he thought it was irresponsible to have this discussion without considering the cost to consumers.

Anderson said a charge on electrical bills would also hurt industry that run 365 days a year.

Moline discussed difficulties of trying to establish a fair, means-tested rate—wherever you draw the line, the people making more make up for those who are making less, and if you're just barely over the line, this isn't fair. Said he didn't like to make changes without having a clear idea about who is going to gain and who is going to lose.

Merry noted that older, historic courthouses either don't want to make changes (based on historic preservation) or don't have funds to make changes. In Coffey County, they upgraded lighting system, and their electric bill did go down. Unfortunately, it was about the same time that gas prices went up.

Volker mentioned the economic tests used in the 1980s and 1990s to measure impact on investments in demand-side management.

Snead said that when talking about utility investment, you have to be consistent, have clear goals and objectives, and it has to be cross sectored. There needs to be something for everyone, opportunities across all sectors. Rates play a role in this; it's clear that utility regulatory bodies can enable energy efficiency to move forward.

Allison said he'd asked Snead to get discussion rolling, and they'd succeeded. He said he had asked Bruce to chair the Energy Efficiency and Conservation committee, but it hadn't been staffed. Noted that this committee's scope was broad, cuts across all energy sectors. It's clear that a major factor is a very aggressive state policy. The questions are how to structure this committee? Should it consist only of KEC folks or include people from outside?

Snead said there needs to be a mixture. Seek input, provide draft for comment and reaction, in committee and outside committee. Have listserv discussion to move forward in reasonable time frame. Noted that there were individuals that have expressed interest.

Allison asked Council to think about people that would be good on this committee, and forward them to him, and he'd work on putting together draft charge.

Allison also noted that we now have an intern, a KU student who's currently working with Scott White. Her name is Emily Howard. White explained that Emily is available to work 6 hrs a week for this semester and next. We've asked her to help pull together information for the renewables incentives committee, then we will use her for renewable energy area and energy efficiency.

Allison again told members to contact him, or Bruce, or Liz if they want to serve, or have names of people to serve, or want to provide input on charge.

Discussion topics, assignments for standing committees

Allison gave the committees some instruction for their discussion during the breakout meetings after lunch. He referred to the handout entitled 2005 KS Energy Report—Suggestions for standing committees, said he wanted committees to pursue ideas for the annual report to the Governor, Legislature in January. We want the report to provide basic information on all energy sectors, so we're asking the committees to help us better describe their industry. The handout lists some of the suggested topics for the report.

Brosius asked that they also take a look at the format and make suggestions, if there are better ways to do this report.

Break for lunch at 11:55 a.m.

Resume breakout meetings of standing committees at 12:35 p.m.

Full council resumes at 2:43 p.m.

Brief reports from committee chairs

Allison asked for brief reports from chairs of each of the standing committees.

Springe, who sat in for Colin Hansen, reported on the discussion of the Electric Utilities committee. Regarding the KEC role with transmission, Springe said the committee felt that utilities are already well represented. Issues of eminent domain and siting policies, should be addressed at the state level and KEC may want to make a statement regarding federal preemption of siting authority. The committee also discussed that everything being discussed by other committees will affect utilities and supported some method to indicate the level of support for KEC recommendations (in the final report), to give some indication of whether these were unanimously endorsed or received a slim majority.

Springe outlined four concerns the committee had with regard to renewable incentives: (1) any program or initiative must have a positive net benefit to Kansas, (2) the cost of any initiative must be equitably borne statewide, (3) market-based incentives are preferred over policy mandates, and (4) incentives should be transparent and recoverable.

Springe said the committee also suggested bringing other utilities into the discussion—e.g., KCPL, Aquila, Atmos, Empire. Allison agreed, said he thought about that in long term, as part of public involvement process.

Steve Dillard reported on the Petroleum & Natural Gas discussions. Said they reviewed charges in the executive order again to get a better grasp, reported on natural gas price and supply issues. The committee sees Kansas as KS is competitively situated and advocated preserving this infrastructure. Talked about refinery issues, will expand later, may have general recommendations. Curt Wright provided info regarding marketers, took those written comments. Committee observed that rural communities may be disproportionately disadvantaged because of the need to keep all the different products separate, which is more burdensome for small marketers. Committee may recommend to KEC that they address this problem in report and that legislature is made aware of problem. Regarding energy resources, they said they'd tie in with conservation and energy efficiency as things come up. Didn't get far with CO2, thought it fits in with long range planning. The committee had some concerns about the wisdom of going forward again with last year's severance tax recommendation; they're still considering this and would like to meet with EPA, KDHE, and others before deciding. The industry has several regulations hanging over heads now, SPCC plans, storm water rights, would like

to discuss issues, possible resolution, and will then advise council and make recommendations in report.

Brosius asked if they'd discussed topics they wanted to see covered in the energy overview section of annual report, and Dillard said he'd use handout for suggestions and get back by email to Brosius.

Johnson reported on the discussions of the Renewable Energy Committee. She said they went through the handout and made a list of topics for the report, and that they'd discussed Brosius' suggestion that this part of the report be designed to do double duty as educational handouts. The topics they came up with were biomass, wind, solar, hydrogen, environmental, and conservation and energy efficiency. Everyone is going to feed things to Brosius and then come back at next meeting to see what holes need to be filled. The committee brainstormed on potential legislation, generating about 10 items, which they will circulate, let people think about, then come back next month and vote, winnowing them down to 3-5 to bring back to full council. Johnson also said the committee discussed that KEC needed a method whereby all members could see all the recommendations (along with a summary of benefits) before the final meeting, rather than getting them at the last minute. Regarding long-term planning, Johnson said they didn't have much time to discuss, but agreed there was a need to have a plan and that this needed to be started early in 2005. Jim Ploger had given a summary of a proposed deliberative polling process and would send out emails with more details.

Allison thanked the committees for their work.

Long-range planning for KEC

Allison opened discussion of long-range planning, recognized the need for KEC to do this and acknowledged that the Council had been more focused on short-term deadlines in past years. Allison said he'd asked three people—Sarah Dean, Chair, Michael Volker, and Richard Nelson—to serve on a committee to develop a plan for long-term planning and make a proposal back to the KEC. Invited others interested in serving on this committee to contact him. Said that in 2005 he wanted to focus on how to develop long term comprehensive energy plan for state.

Moore asked why take so long? We have several charges in the executive order relating to the importance of a comprehensive energy plan. Not sure why this initial phase needs so much time.

Allison asked Dean if she could report back at October meeting with some suggestions for the Council, and Dean agreed that, with minimal input from Nelson and Volker, she could do this. Allison said he did not expect to have a process in place by the October meeting, but by the end of the year, when we turn in annual report, he'd like to have identified the process for long-term planning.

Johnson asked about plans for next year. How often would the KEC be meeting?

Allison asked the members for their comments on how often the group needed to meet, recognizing that it was a significant commitment to get to monthly meetings.

Snead said that based on his experience on task forces and large boards, if you don't meet bi-monthly, 6 meetings a year, you lose touch. Quarterly is not enough to make progress.

Anderson asked if the legislature expected to use this group as resource? If so, then bi-monthly is probably not enough. Allison said Utilities committees paid attention to what KEC's doing, asking for report before session starts.

Moline said he doubted the legislature would be asking for input from the KEC during the session. Moore said they may turn to KS Inc.

Brosius asked whether they wanted to plan to meet in January since they would not be meeting in December? Allison said they probably should plan for a January meeting. Brosius said they'd bring some possible dates for discussion at the October meeting; asked members to bring their calendars.

Allison said they'd adopt idea for 6 meetings, every two months, and put together a tentative timetable for next meeting.

KEC updates

Allison noted that they'd already discussed the WPTF recommendations that morning.

Role of cabinet officers and other state agencies in KEC

Allison said that at the last Natural Resources Sub-cabinet meeting, they spent one and half out of two hours talking about energy. Cabinet officers are willing to provide staff support and expertise to KEC. He noted that he was meeting with KDHE to get their help with wind and prairie issues.

Allison mentioned that the Sub-cabinet members would be contacting Governor about adding 3 more cabinet-level folks to the council: Secretary of Commerce, Secretary of Health and Environment, and Conservation Commission. This was discussed when KEC was reconstituted, but there was a sense that this body was already large. Allison said he did get a positive sense about what we are doing. He recommended that we bring together folks involved in energy programs throughout state agencies to find out what everyone's doing and get acquainted. This idea was very well received.

Brosius noted that Susan Duffy had a student working on identifying energy-related activities in state government, which will be extremely helpful.

Renewable Energy & Energy Efficiency '04

Allison reminded everyone of the renewable energy conference in Topeka late next month. KEC will have a booth there. Plan to have KEC reports on CD and distribute widely. Brosius added that the booth could include anything related to the state's energy-

related activities. Said she'd coordinate with Ploger. Allison invited members to come and help staff the booth and share information.

Flint Hills mapping

Allison said he was excited about the Tallgrass mapping project, undertaken by the KBS and KGS, that it was on schedule, on target, and will have Chase and Morris Counties finished this week. The full map should be completed in October. Should be well accepted; the level of detail is phenomenal. KEC funds are supporting this effort.

Merry asked if there would be an overlay showing landowners? Allison said they'd already put many of the GIS layers together, wasn't sure about landowners. White said they had that information for some of the counties in the state. Dillard noted this information is updated about every 2 years by Kansas Blueprint. Allison said that if counties have the information, we should be able to get it.

Moore introduced Aaron Otto, who has recently joined his office and is helping with his transition from Commerce to new position. Aaron is from Manhattan, has been in Washington. Moore said he would be a great asset.

Other business, announcements

Brosius said that staff had been considering what online publications it might be worthwhile to subscribe to, and asked for suggestions. Volker and others said they thought Energy Central was the best news service. Allison said if others had suggestions to let us know.

Allison reminded everyone that the next meeting will be at the Alumni Center in Manhattan, October 19, from 10:00 to 4:00. He thanked Nelson and K-State for providing lunch.

Adjourned at 3:25.