

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Chairman Carl Holmes at 9:00 A.M. on January 27, 2011, in Room 785 of the Docking State Office Building.

All members were present except:
Representative Joe Seiwert-excused

Committee staff present:
Matt Sterling, Office of the Revisor of Statutes
Cindy Lash, Kansas Legislative Research Department
Corey Carnahan, Kansas Legislative Research Department
Renae Hansen, Committee Assistant

Conferees appearing before the Committee:
Ron Gashes
Beth Jensen, Trans-Canada
Jim Prescott, Trans-Canada
Representative Tom Sloan, 45th District
Kimberly Gencur-Svaty, Electric generating companies of Kansas
Dave Springe, CURB

Others attending:
Thirty- Two including the attached list.

Chairman Holmes reminded the committee of the public hearing for the Westar rate case before the Kansas Corporation Commission scheduled for next Tuesday evening.

Representative Tom Sloan, ([Attachment 1](#)), presented the committee with an article on the EPA study of the pollution emission foot print of the extraction of Natural Gas.

Presentation by :
Trans-Canada

Ron Gaches introduced the representatives from Trans-Canada.

Beth Jensen, ([Attachment 2](#)), began the presentation by Trans-Canada noting that this Keystone project is one of the biggest projects in North America. It is a \$12 billion pipeline, covering three provinces, nine states, 110 counties and spans 4,000 miles. With this project they have to get 4,000 permits from various regulatory agencies along the project path. She noted that construction of this project in Kansas produced new spending of \$683 million, increased personal income by \$376 million, and generated more than \$17 million in tax revenue for state and local governments.

Trans-Canada Pipeline included various supporting pieces of testimony including:

- Map of pipeline in Kansas, ([Attachment 3](#))
- Map of pipeline in North America, ([Attachment 4](#))
- Media advisory, ([Attachment 5](#))
- Gains in Kansas Business Activity Stemming from Keystone Pipeline Investments, ([Attachment 6](#))
- Salina Journal article on Pipeline prosperity, ([Attachment 7](#))
- Augusta Daily Gazette article, ([Attachment 8](#))
- Keystone Pipeline System Project Update, ([Attachment 9](#))

Questions were asked and comments made by Representatives: Vern Swanson, Tom Sloan, Don Hineman, Carl Holmes, Forrest Knox, Reynaldo Mesa, Gail Finney, Annie Kuether,

Jim Prescott, Trans-Canada, and Ron Gaches, helped to answer questions brought up by the committee. Mr. Prescott noted that there are three parts to getting gasoline to the consumer: extraction, refining, and transporting. Their portion of the production is the transporting.

CONTINUATION SHEET

The minutes of the House Energy and Utilities Committee at 9:00 A.M. on January 27, 2011, in Room 785 of the Docking State Office Building.

Hearing on:

HCR 5005- Establishing targets for energy development, consumption and costs.

Proponent:

Representative Tom Sloan, (Attachment 10), spoke to the committee on **HCR 5005**. This bill would promote a 10 year state energy plan to help Kansas move towards becoming an energy exporter again. He noted that **HCR 5005** establishes energy targets in these areas: energy production, energy storage, conservation and efficiency, transmission, research, and workforce development. He commented that this resolution sets out a vision for the state on energy issues noting that this resolution is flexible for changes.

Neutral:

Jeff H. Risley, Climate and Energy Project, (Attachment 11), presented written only, neutral testimony in support in general of anything that helps promote using less energy contained in **HCR 5005**.

Opponents:

Kimberly Gencur-Svaty, Electric Energy Producers of Kansas, (Attachment 12), presented testimony in respectful opposition to **HCR 5005**. Ms. Gencur-Svaty walked through the resolution point by point refuting how the resolution approaches the target areas. The energy producers in Kansas noted how the state already meets the needs or is working towards meeting these target areas. Additionally, she noted that four of the recommended agencies suggested to come together to ensure these goals are achieved are in fact entities that have no working knowledge of this information and would spend a large amount of time getting educated in order to make intelligent recommendations.

David Springe, CURB, (Attachment 13), offered testimony in opposition to **HCR 5005**. Mr. Springe commented that CURB does appreciate a vibrant conversation about energy. He noted that the targets set forth in this resolution are not the result of public policy discussions and do not appear to be based on a consensus of relevant stakeholders. The targets are aggressive compared to current Kansas policy. He noted that putting this idea into a resolution instead of a law the legislature creates a lot of uncertainty about what is important to focus on. He commented that if you don't have some targets, you don't know where you are going and to that end one must have some sort of direction.

Questions were asked and comments made by Representative: Forrest Knox, Nile Dillmore, Carl Holmes, Tom Sloan, Annie Kuether, Joe Siewert, and Don Schroeder.

The hearing on **HR 5005** was suspended.

The next meeting is scheduled for January 28, 2011.

The meeting was adjourned at 10:46 A.M.

HOUSE ENERGY AND UTILITIES COMMITTEE

GUEST LIST

DATE: January 27, 2011

NAME	REPRESENTING
Dan Spryge	Curb
Scott Jones	KCPK
Doug Smith	SEPC
JOHN BOTTENBERG	BOTTENBERG & Assoc
Phil WAGES	KEPCO
Derek Hen	HEN LAW FIRM
Colin Curtis	Sandstone Group
Kimberly Sady	KMU
Long Stanton	Northern Natural Gas Co
Tom Carver	Keystone
Nate Lindsey	Kearney & Assoc.
Mark Schroeder	Westar
Eric Eskilson	Eskilson Engineering Inc.
TOM DAY	KCC
Dave Holthaus	Kec
Whitney Jamran	Empire District Electric
Nelson Krueger	USC
Wigh Klee	Capitol Strategies
Rex Buchanan	Ko. Geo. Survey

HOUSE ENERGY AND UTILITIES COMMITTEE
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DATE: January 27, 2011

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Energy and the Environment

EPA Study Shows Natural-Gas Emissions Higher Than Estimates

New research from EPA indicated natural gas was not as environmentally friendly as previously thought because earlier analyses did not take into account the pollution emitted over its entire life cycle, ProPublica reported. EPA's new analysis found the fuel could be as little as 25 percent cleaner than coal, as compared to earlier estimates that gas was 50 percent cleaner.

EPA said billions of cubic feet of GHGs from natural gas extraction and transportation end up in the atmosphere due to loose pipe valves or intentional releases. Gas drilling accounted for at least 20 percent of human-caused methane emissions, according to the World Bank, a number EPA said would rise as drilling increased. EPA found that emissions from the type of hydraulic fracturing being used in new gas shale reserves, such as the Marcellus, were 9,000 times higher than it had previously calculated.

The dearth of knowledge about the impact of methane emissions, which some scientists said could be 72 times as damaging as CO₂ emissions, added further uncertainty to the future of gas generation. Tom Singer, a senior policy analyst for the Natural Resources Defense Council, was quoted as saying: "You can't just assume away some of these sources as de minimus. You need to get a handle on them before you can make a determination."

EPA's conclusions could impact new investment in gas-based power plants, reported ProPublica. Duke Energy Chairman, President and CEO James Rogers was quoted as saying: "The problem is you build a gas plant for 40 years. That's a long bridge." Rogers expressed concern that an unconsidered increase in natural gas-based generation could cause the U.S. to become dependent on another fossil fuel that would not reduce the rate of climate change. Rogers was quoted as saying: "In the 60's we put a needle in one arm—it was called oil. If the shale gas doesn't play out as predicted, and we build a lot of gas plants in this country, and we don't drill offshore, we're going to be putting the needle in the other arm and it's going to be called gas."

ProPublica, Jan. 25.

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HOUSE ENERGY AND UTILITIES

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ATTACHMENT 1

Kansas House Energy and Utilities Committee

January 27 2011

Beth Jensen, Director of Government Relations, Keystone Pipeline

Introductions

- Introduce team
- We announced Keystone six years ago...a long journey.
- I have to say, we especially appreciate the cooperation and interest in Keystone Pipeline in Kansas...few states, if any have worked closer with us, and for that we are grateful.

Project Background

- As you can see in the overall Keystone Pipeline System map in your packet, Keystone is a big project, one of the biggest in North America.
- It's a \$12 billion pipeline that covers three provinces, nine states, 110 counties and 4,000 miles.
- The technical aspects of Keystone are impressive, but I know you will appreciate the regulatory hoops we have had to jump through --- and continue to jump through -- to build Keystone:
 - at 4,000 miles, we need 4,000 permits from one regulatory agency or another along the way, from a Presidential Permit to driveway approach permits at the township level.
- This is a project that will connect a reliable source of oil in Canada with growing demand in the U.S.
- When it's complete, Keystone will have the capacity to deliver 1.1 million barrels of oil per day to delivery points at Wood River and Patoka, IL, the Gulf Coast, and Cushing, Oklahoma.
- That's roughly 5 percent of the oil we use in the U.S. each day.
- And every barrel Keystone delivers is one less barrel we have to import from less than reliable sources.

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- Given the size and scope of the project, the various phases of Keystone have involved three stages of pipeline development at one time or another in Kansas:
 - Regulatory review and approval
 - Construction
 - Operations

Project Status: Keystone Phase 1

- We completed construction of Keystone Phase 1 through the four counties in the northeast corner of Kansas in early 2010.
- Keystone Phase included not only Kansas, but construction over two years in North Dakota, South Dakota, Nebraska, Missouri, and Illinois.
- In June 2010...last summer...we placed Keystone Phase 1 in service and began delivering oil to Wood River and Patoka, Illinois.
- That portion of the project has the capacity to deliver 435,000 barrels of oil per day
- I am pleased to say that our work with landowners and local stakeholders in Marshall, Nemaha, Brown and Doniphan counties was extremely positive and productive.
- We had no serious issues, and construction was relatively uneventful

Project Status: Keystone Phase 2 (Cushing Extension)

- In 2010, we built the second phase of Keystone, connecting the pipeline from Steele City, Nebraska to Cushing, Oklahoma, a distance of nearly 300 miles.
- Our construction activities in Kansas produced new spending of \$683 million, increased personal income by \$376 million, and generated more than \$17 million in tax revenue for state and local governments.
- We completed construction on Keystone Phase 2 in December and are currently in the line fill, testing and commissioning phase prior to placing this stretch of pipeline in service in about a month.

- Keystone Phase 2 brings the total capacity of the pipeline system to 591,000 barrels of oil per day.
- During construction, which began in May, our contractors set up bases of operation in Junction City and Augusta, with pipe yards and supply yards in several other locations, such as Washington, Clay Center, Chapman, Florence....
- For last year's construction, we had roughly 1,200 workers on the job in Kansas, and as you may know, they brought significant economic benefits with them.
- They needed places to stay, places to buy groceries, clothes, furniture, equipment, and places to make repairs to their trucks and gear.
- Keystone bought supplies from local vendors...we needed fuels and oils for the heavy equipment, rock, gravel, lumber, welding sticks, office supplies...you name it, we bought it locally.
- In fact, as the Salina Journal described it, Keystone brought "pipeline prosperity" to Kansas.
- Your packets include not only the Salina Journal story, but another from the Augusta Gazette that describes the volunteer efforts of the "pipeline ladies," the spouses and families of pipeline workers who adopt their temporary communities while they were in Kansas.
- And while a project as large as Keystone involves billions of dollars, we know that the \$50,000 in community investments we made in Kansas last year goes a long way.
- Our contributions benefitted such worthy causes and organizations as the Wichita Children's Home, volunteer fire departments, park districts and children's playgrounds, St. Luke Hospital in Marion, and the Clay County Chamber Orchestra, to name a few.
- In short, our work in Kansas is nearly complete and, from our perspective, incredibly successful.

Project Status: Keystone Gulf Coast Expansion

- Briefly, we have proposed to expand the Keystone system south from Cushing to the Gulf Coast in Texas, where the pipeline will deliver a steady, reliable supply of oil to refineries and replace oil we currently import from the Middle East and Venezuela.
- We anticipate receiving a Presidential Permit for Keystone XL...as we call that phase of the project...later this year and would start construction as soon as possible when we have approval to proceed.
- I'd like to take this opportunity to reinforce an important point: Keystone XL Pipeline will carry a significant portion of American crude oil to key hubs, provide transportation alternatives for the fastest-growing onshore oil play (Bakken) and provide American refineries with access to much cheaper Canadian oil.
- **This project will provide significant investment into the American economy, high-quality jobs for American workers and a safe and reliable supply of Canadian and American oil. This is why business organizations, significant labor organizations and many legislators currently support it.**
- We would welcome a formal expression of this committee's support for Keystone XL and its importance to strengthen American energy security and generate significant economic benefits.

Oil Prices

- You also may be aware of media reports this week about Keystone, the per-barrel price of oil, and what it means for consumers at the pump.
- Let me shed provide you with the facts:
 - Oil prices are fundamentally set by OPEC
 - Canadian oil is the cheapest oil American refineries can buy; refiners secure Canadian crude oil at a discount – approximately

\$60 per barrel of Canadian crude versus \$86 per barrel for oil from the Middle East

- Keystone XL will provide more access to cheaper Canadian oil by displacing higher-priced foreign oil from the Middle East and Venezuela.
- If American refiners purchase cheaper Canadian oil and U.S. crude oil from Montana and the Dakotas through Keystone XL, they can afford to sell gasoline and diesel at lower prices to American drivers.
- The Keystone XL Pipeline Project invests \$20 billion into the American economy. It provides 20,000 construction and manufacturing jobs. It provides a safe, reliable and secure of Canadian and American oil resources for American refineries. It helps reduce U.S. dependence on oil from Venezuela, the Middle East and other OPEC countries.

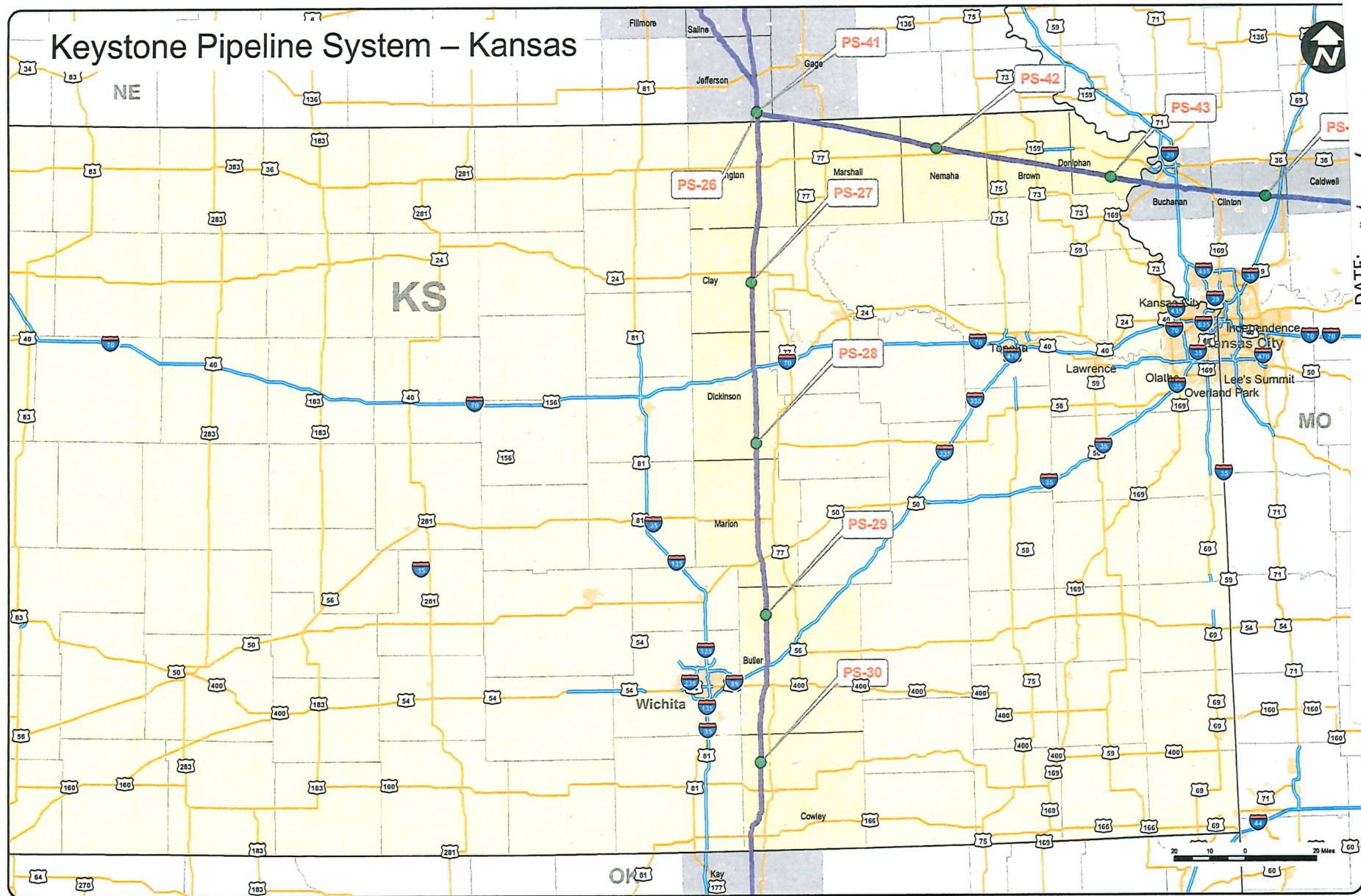
Conclusion and Thank You

- With all that we have to do in the last several years, we would like to say thank you for your help.
- This project is so big that we have had the entire range of reaction to it...from outright opposition...to strong support.
- Few states better understand what we're trying to do better than Kansas...you get it, and we thank you for that.
- Our team...Ron Gaches and Jim Prescott...has worked closely with you, your county commissioners and local officials...for the past few years, and we hope you agree that we have established a productive working relationship with you.
- Going forward as we transition to operations, we want to strengthen that relationship by solving problems that probably will pop up in your communities.

- But we also want to work with you to identify opportunities where we can help each other...and hope that if you think of a way Keystone can do a little more, please let us know. If we can help, we will.
- For myself, and on behalf of Keystone Pipeline, thank you.
- We would be happy to answer any questions you might have.

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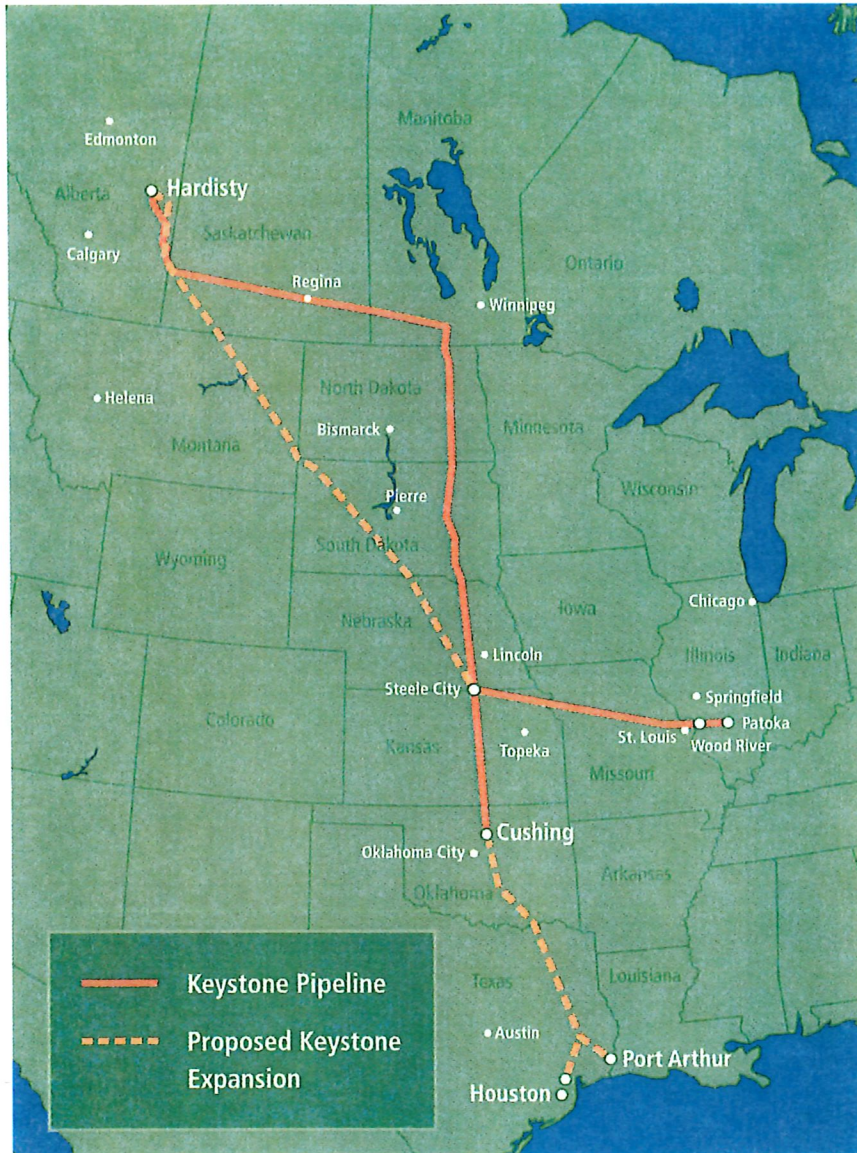
Keystone Pipeline System – Kansas



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MEDIA ADVISORY

INDEPENDENT STUDY FINDS KEYSTONE GULF COAST EXPANSION TO STIMULATE \$683 MILLION IN NEW SPENDING IN KANSAS

Calgary, Alberta – June 17, 2010 – An independent economic study finds that the construction of the Keystone Gulf Coast Expansion Pipeline project should provide significant, positive contributions to the Kansas economy valued at \$683 million.

The Perryman Group study also states that local economies along the pipeline route could benefit from increases in tax revenues and business activity and improve U.S. energy security with the ongoing benefit to the U.S. economy of a more stable source of consistent energy supply over an extended period of time.

In Kansas, the study estimates that during construction, the project is expected to stimulate:

- \$683 million in new spending for the Kansas economy
- More than 6,700 person years of employment
- Increased personal income by \$376 million
- Additional state and local tax revenues of more than \$17 million
- \$486 million in increased Gross State Product

The study further concluded that once the pipeline is operational, Kansas could see nearly \$531 million in property taxes to county and other local governments during the operating life of the pipeline. The \$7 billion pipeline project is expected to directly create more than 13,000 high-wage construction jobs in 2011-2012 across the U.S., stimulating significant additional economic activity.

The study also highlights the significant ongoing benefit to the U.S. economy of a more stable, consistent and reliable supply of oil. When completed, the Keystone Pipeline System is expected to provide five per cent of current U.S. petroleum-consumption needs and represent nine per cent of U.S. petroleum imports. Once permitted and completed, the Keystone Gulf Coast Expansion project will supply roughly half the amount of oil that the U.S. currently imports from the Middle East or Venezuela.

The project received approval in March 2010 from both the South Dakota Public Utility Commission and the National Energy Board in Canada for the proposed Keystone expansion. Construction is planned to begin in the first quarter of 2011 with deliveries of crude oil to the U.S. Gulf Coast expected to start in the first quarter of 2013.

When completed, the expansion project will increase the commercial capacity of the Keystone Pipeline System from 590,000 barrels per day to approximately 1.1 million barrels per day. The \$12 billion system is 83 percent subscribed with long-term, binding contracts that include commitments of 910,000 barrels per day for an average term of approximately 18 years. Commercial operation of the first phase of the Keystone system is expected to commence in the summer of 2010.

The Keystone expansion project is a planned 1,959-mile (3,134-kilometre), 36-inch crude oil pipeline stretching from Hardisty, Alberta and moving southeast through Saskatchewan, Montana, South Dakota and Nebraska. It will link up with a portion of the Keystone Pipeline that will be built through Kansas to Cushing, Oklahoma and facilitate take away capacity from US hubs located on the pipeline. The pipeline will then continue on through Oklahoma to a delivery point near existing terminals in Nederland, Texas to serve the Port Arthur, Texas marketplace.

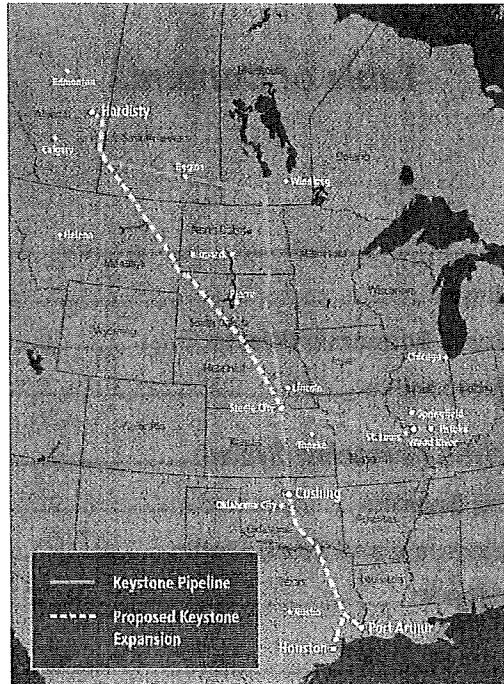
To view a map of the proposed pipeline route and obtain a copy of the study, please visit the project web page at www.transcanada.com/keystone

With more than 50 years' experience, TransCanada is a leader in the responsible development and reliable operation of North American energy infrastructure including natural gas and oil pipelines, power generation and gas storage facilities. TransCanada's network of wholly owned natural gas pipelines extends more than 60,000 kilometres (37,000 miles), tapping into virtually all major gas supply basins in North America. TransCanada is one of the continent's largest providers of gas storage and related services with approximately 380 billion cubic feet of storage capacity. A growing independent power producer, TransCanada owns, or has interests in, over 11,700 megawatts of power generation in Canada and the United States. TransCanada is developing one of North America's largest oil delivery systems. TransCanada's common shares trade on the Toronto and New York stock exchanges under the symbol TRP. For more information visit: www.transcanada.com

TransCanada Forward-Looking Information

This news release may contain certain information that is forward looking and is subject to important risks and uncertainties. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward-looking information. Forward-looking statements in this document are intended to provide TransCanada securityholders and potential investors with information regarding TransCanada and its subsidiaries, including management's assessment of TransCanada's and its subsidiaries' future financial and operations plans and outlook. Forward-looking statements in this document may include, among others, statements regarding the anticipated business prospects and financial performance of TransCanada and its subsidiaries, expectations or projections about the future, and strategies and goals for growth and expansion. All forward-looking statements reflect TransCanada's beliefs and assumptions based on information available at the time the statements were made. Actual results or events may differ from those predicted in these forward-looking statements. Factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of TransCanada to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of TransCanada's pipeline and energy assets, the availability and price of energy commodities, capacity payments, regulatory processes and decisions, changes in environmental and other laws and regulations, competitive factors in the pipeline and energy sectors, construction and completion of capital projects, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, technological developments and the current economic conditions in North America. By its nature, forward-looking information is subject to various risks and uncertainties, which could cause TransCanada's actual results and experience to differ materially from the anticipated results or expectations expressed. Additional information on these and other factors is available in the reports filed by TransCanada with Canadian securities regulators and with the U.S. Securities and Exchange Commission (SEC). Readers are cautioned to not place undue reliance on this forward-looking information, which is given as of the date it is expressed in this news release or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. TransCanada undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Gains in Kansas Business Activity Stemming from Keystone Pipeline Investments: A County-Level Analysis of Economic and Tax Benefits



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June 2010

HOUSE ENERGY AND UTILITIES

DATE: 1/27/2011

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Gains in Kansas Business Activity Stemming from Keystone Pipeline Investments:

A County-Level Analysis of Economic and Tax Benefits

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Gains in Kansas Business Activity Stemming from Keystone Pipeline Investments:

A County-Level Analysis of Economic and Tax Benefits

Introduction

Investments in TransCanada Keystone Pipeline, L.P. (Keystone) represent an important part of the country's pipeline system, which supports energy delivery to millions of Americans. Keystone expands an already-substantial trading partnership in which Canada supplies more oil to the United States than any other country. With Keystone, another 1.1 million barrels per day of crude oil will be delivered to US refineries in the Midwest and Gulf Coast from reliable production sources in Canada, further reducing the need to import oil from less-than-dependable sources in the Middle East, South America, and elsewhere. It also avoids weather-related interruptions to the delivery of oil supplies, such as those experienced as a result of Hurricane Katrina in 2005.

The 4,000-mile Keystone Pipeline System includes a direct capital investment by TransCanada of about \$1.0 billion in the segment in Kansas that connects the pipeline to vital delivery locations. This results in a notable stimulus to the national economy and enhancement in energy security (as outlined subsequently). TransCanada already operates pipeline through several counties (Marshall, Nemaha, Brown, and Doniphan); the new investment will connect the existing line through to the

Gulf Coast. (In a prior report released in March, The Perryman Group quantified the total impact of TransCanada's pipeline investment in Kansas—both existing and planned; this report reflects the stimulus associated with the planned Keystone XL only.)

The construction and development of these facilities will result in a sizable stimulus to state and local economies. The Perryman Group (TPG) was asked to quantify the gains in business activity in Kansas generally and, in particular, in the Kansas counties along the pipeline route. It is clear that these infrastructure investments generate a substantial increment to production in the affected areas, many of which are rural.

It is important to note that some of the areas along the route are less able to support economic activity due to their extremely rural nature. The Perryman Group's economic assessment systems are designed to account for the relative abilities of various areas to supply necessary goods and services. In addition, all major categories of out-of-state purchases were eliminated from the analysis, as well as the portion of outlays within the state likely to come from outside of each county.

Therefore, these estimates are adjusted for the sparse population and lack of business enterprises that characterize some of these areas. It should be noted, however, that all available economic information at the industrial level is expressed on a "place of work" basis. Thus, for example, the wages paid for work in each county will be included, although the secondary spending resulting from the wages is minimal in rural areas.



Highlights of Study Findings

- **TransCanada's direct investment of about \$1.0 billion in Kansas for the construction and development of Keystone leads to gains in business activity in the state of Kansas (including multiplier effects) of an estimated \$683.2 million in total expenditures, \$486.5 million in output (gross product), and 6,721 person-years of employment. These impacts include the direct capital expenditures and related multiplier effects through the economy and are fully adjusted for goods (such as pipe) manufactured outside the state.**
- **This increase in economic activity stimulated by TransCanada's investment in Kansas will generate tax receipts during construction of an estimated**
 - **\$15.0 million to the State and**
 - **\$2.9 million to local taxing entities.**
- **Once the facilities are completed, they will have a useful life estimated at not less than 100 years. Using reasonable assumptions regarding valuation and tax rates, these assets are estimated to yield more than \$531.8 million (on a present discounted value basis) in property taxes to local governments in the state.**
- **The economic and fiscal benefits of the construction and development of the Keystone Pipeline System (both the direct investment and the associated multiplier activity) are summarized in the following table.**



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**The Effect of Construction and Development of the
Keystone Pipeline System on Business Activity in Kansas**
Results by County (In Constant 2009 Dollars)

Area	Expenditures	Gross Product	Personal Income	Person-Years of Employment	Local Government Revenues During Construction	Present Value of Cumulative Property Taxes During Operational Life*
Washington County	\$69,855,437	\$50,366,740	\$40,097,671	716	\$287,275	\$59,582,272
Clay County	\$100,559,245	\$72,027,812	\$56,265,676	1,017	\$463,903	\$103,842,600
Dickinson County	\$114,628,173	\$82,724,847	\$64,890,358	1,175	\$521,305	\$101,784,533
Marion County	\$83,832,519	\$60,444,411	\$48,120,646	859	\$344,755	\$64,151,162
Butler County	\$127,541,484	\$91,478,215	\$72,030,451	1,310	\$590,754	\$94,364,110
Cowley County	\$110,320,847	\$78,518,857	\$61,718,712	1,122	\$500,316	\$108,082,435
Rest of State	\$76,424,539	\$50,925,263	\$33,447,122	522	\$240,036	N/A
Kansas Total	\$683,162,244	\$486,486,146	\$376,570,636	6,721	\$2,948,345	\$531,807,111

*Note: Property tax calculation is an approximation reflecting estimated initial values, typical escalation in pipeline values, anticipated useful life, constant effective tax rates, and a long-term discount rate reflecting current yields on 30-year US Treasury securities. Ultimate payments may vary significantly based on initial valuations, negotiations, or variations in any of the factors noted above. These calculations reflect the expectation that abatements during the first 10 years of operation will be available for Washington, Clay, Dickinson, Marion, Butler, and Cowley counties.

- These investments represent an important component of the national pipeline system that assures reliable energy delivery, thus improving national energy security. In addition, their construction and development is a sizable source of funds for the State of Kansas and local governmental entities.



Energy Security and National Economic Effects

While “energy independence” is often discussed in domestic policy debates, it is highly unlikely that this objective can be attained in the foreseeable future. The US currently accounts for about 25% of world energy consumption while having less than 5% of known supplies. A **more appropriate characterization of the US situation is the quest for “energy security,” meaning a supply of oil in reliable quantities from more stable and predictable sources than the volatile regions which now dominate the global market.** The availability of substantial Canadian supplies delivered in an efficient manner would bring notable economic benefits. A lower risk premium would generate cost savings and stimulate business activity. In effect, **the Keystone XL Project facilitates a long-term increase in marginal supply, which will have a modest price effect permeating the entire economy.** These benefits, of course, are over and above the **sizeable gains from the construction stimulus**, particularly in the areas directly affected.

TPG was recently asked to conduct a comprehensive economic impact analysis of the proposed Keystone XL Pipeline. Key findings from that analysis include the following:

- A stable environment with incremental supplies of crude petroleum from reliable sources leads to lower costs, thereby putting downward pressure on prices.
- Some aspects of the energy transportation system are nearing capacity, and future demand may be difficult to accommodate. Without timely investments, congestion through transportation systems can result in supply interruptions and other problems. In



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fact, many of the crude oil and petroleum products pipelines in the country are operating near capacity.

- Ensuring the availability of this critical infrastructure resource is crucial to the future performance of the US economy, particularly in cases where it provides access to additional petroleum resources.
- **The Perryman Group measured the total impact of the construction and development of the proposed Keystone XL pipeline on the US economy. These effects over the life of the project were found to include \$20.931 billion in total spending, \$9.605 billion in output, and 118,935 person-years of employment. These effects are significant in the states along the route, though spillover gains to other areas, particularly with regard to manufacturing, are quite notable.**
- Beyond the construction and development of the pipeline, **the US economy would see permanent benefits because of the savings stemming from a more reliable supply of oil to meet future needs.** Various sectors would essentially be paying less for the same input than would be the case in the absence of the Keystone XL Project, and these savings represent a net pool of funds that would be added to the production complex.
 - Under “normal” oil price assumptions equivalent to the average for all of 2007, The Perryman Group found the gains in US business activity stemming from a permanent increase in stable oil supplies to include \$100.144 billion in total spending, \$29.048 billion in output, and 250,348 permanent jobs.
 - In the high-price case in which costs per barrel reach the peak levels observed in the summer of 2008, The Perryman Group measured the annual impact of an



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**increase in stable oil supplies associated with the
Keystone XL Pipeline Project to include \$221.305 billion
in spending, \$64.193 billion in output, and 553,235 jobs.**

- **Thus, this infrastructure investment would have substantial positive outcomes both during its construction and for decades to come in terms of economic activity and energy security.**

The Perryman Group's Perspective

Dr. M. Ray Perryman, the founder and president of The Perryman Group, developed the US Multi-Regional Impact Assessment System (USMRIAS) and has consistently maintained, expanded, and updated it for more than 25 years. This model has the capability to provide detailed evaluations of the effects of economic activity on any county or multi-county region of the country. It has been used in hundreds of applications in all 50 states, and enjoys an excellent reputation for reliability and credibility.

TPG has extensive experience in the oil and gas sector, including assignments for the US Department of Energy and the US Department of the Interior. Projects have also been performed for many of the largest energy companies in the world. These analyses have included, among others, forecasts, impact assessments, regulatory and environmental issues, and legislative and policy initiatives. In addition, the firm has frequently assessed the construction and operation of major new infrastructure projects of all types (highways, rail facilities, electric generating plants and transmission lines, communications facilities, and airports), including several studies specifically involving pipelines.

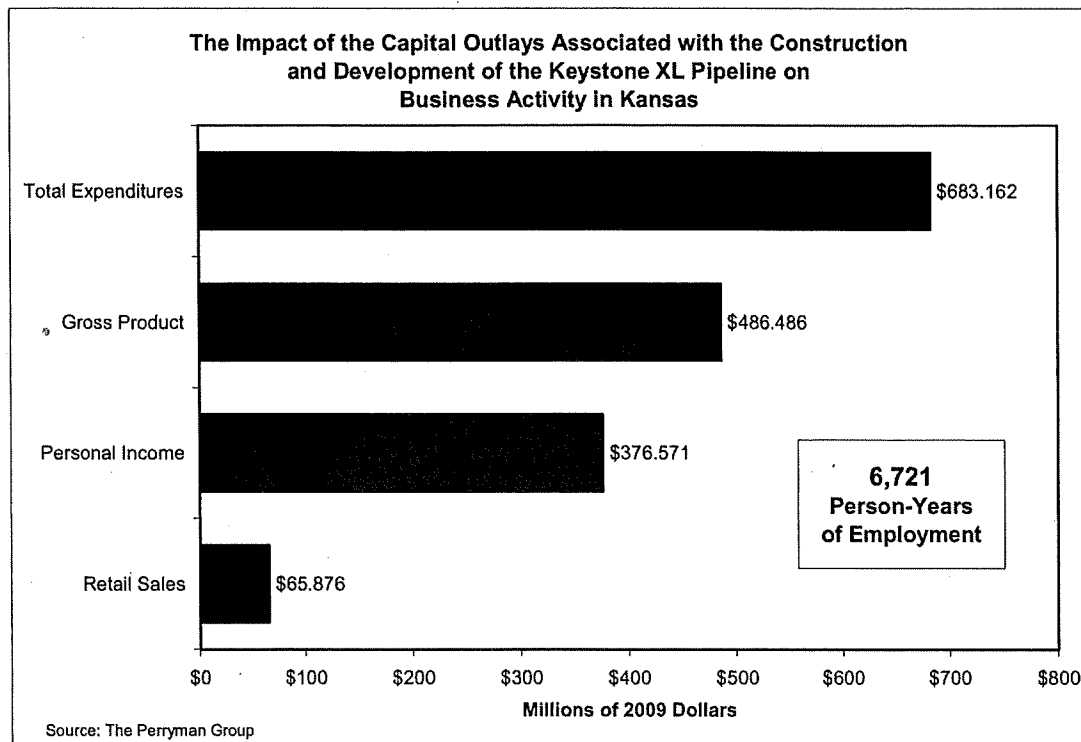
Economic Benefits of the Keystone Pipeline System

Keystone Pipeline investments are located in Marshall, Nemaha, Brown, and Doniphan counties in northeastern Kansas (where the pipeline work is already completed), as well as several central Kansas counties (Washington, Clay, Dickinson, Marion, Butler, and Cowley) where construction is scheduled to begin in 2011. The overall system extends more than 300 miles and includes six pumping stations located in Clay, Dickinson, Butler, Cowley, Nemaha, and Doniphan counties. (Note that the northeastern counties are not included in the current analysis.)

For the state of Kansas and counties along the route, The Perryman Group measured the increment to economic activity associated with the construction and development of the pipeline assets. Increased tax receipts stemming from this enhanced business activity were also measured.

Kansas Economic and Tax Benefits

Construction and development of TransCanada pipeline lead to gains in business activity in the state of Kansas of over \$683.2 million in total spending and \$486.5 million in output (gross product). In addition, TransCanada's pipeline investment results in an increase in personal income of \$376.6 million and 6,721 person-years of employment.



This construction activity also generates millions in tax receipts (separate from and in addition to ad valorem taxes). The Perryman Group estimated the total increase in fiscal receipts through the construction and development phase to include

- **\$15.0 million to the State and**
- **\$2.9 million to local taxing entities.**

These tax revenues are in addition to the property taxes paid directly on the pipeline.

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Individual Counties' Employment and Tax Benefits

Clearly, **the pipeline investment represents a significant source of economic activity and tax receipts during its construction and development.** In addition, the assets will generate substantial property tax revenues on an ongoing basis over their extensive useful life. **The local areas along the route can expect to receive an estimated \$531.8 million in tax payments** assuming (1) a useful life of 100 years with an exemption available during the first ten years, (2) constant effective tax rates, (3) currently expected initial valuations and long-term appreciation in value of 2% per annum, and (4) a discount rate equal to the yield on long-term US Treasury Bonds. Obviously, the actual amount will vary over time as a result of negotiations or variations in any of the above parameters. The values for specific counties during construction and development are summarized as follows. (Note that all property tax estimates are given on a present discounted value basis.)

- **Washington County** will see gains in spending within the economy of \$69.9 million, along with \$50.4 million in output (gross product), \$40.1 million in personal income, and 716 person-years of employment during the construction period, as well as \$59.6 million in long-term property taxes.
- **Clay County** will experience increases in spending of \$100.6 million, with \$72.0 million in output, \$56.3 million in personal income, and 1,017 person-years of employment. Also, property taxes will account for about \$103.8 million over the useful life of the pipeline.
- **Dickinson County** will have the largest gain of all the counties in employment with a total of 1,175 person-years,

and other increases will include \$82.7 million in output, \$64.9 million in personal income, and \$114.6 million in expenditures. Additionally, the county will see a cumulative increment of \$101.8 million in property taxes.

- **Marion County** will also see gains of \$83.8 million in expenditures, \$60.4 million in gross product, \$48.1 million in personal income, and 859 person-years of employment. The gains in property taxes over time will reach approximately \$64.2 million.
- Economic expansion for **Butler County** will include \$127.5 million in expenditures, \$72.0 million in personal income, \$91.5 million in output, and 1,310 person-years of employment. Once completed, the project will bring an aggregate total of \$94.4 million in property taxes.
- **Cowley County** will see significant stimulus in its economy, with \$61.7 million in personal income, \$78.5 million in gross product (output), \$110.3 million in expenditures, 1,122 person-years of employment, and a long-range increase of \$108.1 million in property taxes.
- For the **rest of the State**, economic gains are \$76.4 million in expenditures, \$33.4 million in personal income, \$50.9 million in output, and 522 in person-years of employment.

Methods Used in This Analysis

The basic modeling technique employed in this study is known as dynamic input-output analysis, which essentially measures the multiplier effects of any economic stimulus. Based on survey data, industry information, and



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other source materials, The Perryman Group developed a model of the goods and services needed as resources or inputs to the construction and ongoing operations of the pipeline.

In this instance, the estimated costs of the pipeline and supporting facilities were provided by TransCanada and are consistent with available market information. The model was then used to estimate the amount of spinoff or multiplier activity generated by the pipeline. The cost of key materials manufactured outside the state and other major external purchases was also provided. These amounts were eliminated from local direct spending totals, as were estimates of the remaining amounts that were purchased elsewhere. The models used in this analysis reflect the unique industrial structures and characteristics of Kansas and the relevant counties.

Impacts are expressed in terms of key measures of business activity. In essence, total expenditures (or total spending) is a measure of every dollar that changes hands in the local area as a result of the stimulus. Gross product (or output) is the amount of new production of goods and services that will come about locally as a result of the activity. Personal income is dollars that end up in the hands of people in the area; the vast majority of this aggregate derives from the earnings of employees, but payments such as interest and rents are also included. Job gains are expressed in either person-years of employment (for a temporary effect such as construction) or permanent jobs (for an ongoing impact). In the present instance, person-years is the appropriate measure.

The Perryman Group measured the effect of construction and development of the ongoing and proposed pipeline projects on business

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activity in (1) the entire state of Kansas, (2) individual counties along the route, and (3) the remainder of the state.

Approximate mileage and costs in various areas was provided by the developer, as were the location and costs associated with collateral infrastructure. The Perryman Group used these estimates to define the direct activity associated with the project in Kansas and each county along the route. Certain types of costs (in particular, the cost of pipe and other large materials categories) were omitted from this analysis to reflect the fact that they are not produced locally. Several categories of items purchased outside the state were provided, with the remaining direct expenses being allocated to the individual counties based on labor and equipment use patterns as estimated by TPG based on coefficients of the relevant models.

The magnitudes of these effects are also influenced by the ability of the relevant areas to supply the types of goods and services required for the construction process. The relevant submodels of the USMRIAS reflect the unique industrial structure and composition of each county and the state of Kansas. Other areas not directly on the route also benefit from the development through the provision of inputs to the construction and development phases, as well as other collateral spending by workers on the system. In particular, the major urban areas of the state offer access to many resources not typically available in small, rural counties. As noted earlier, following standard economic convention and data reporting methods on an industrial basis, impacts were expressed on a "place of work" basis. In other words, the activity occurring in a county was captured irrespective of where the employees live.

The expected useful life of pipelines is in excess of 100 years. These assets are important components of the long-term infrastructure and continue to generate economic activity through maintenance and operations. They also involve property tax payments.

As income, spending, purchasing, and other economic activity occurs during the construction phase, it generates fiscal receipts to various governmental entities (beyond any long-term property taxes on the pipeline itself). Based on the magnitude of expected activity, the resulting spinoff activity, and the tax structure within the state, it is possible to use the results of the impact analysis to estimate overall tax receipts.

Conclusion

The Keystone Pipeline System represents important infrastructure investments which generate notable increases in business activity and tax receipts in Kansas. In particular, for the areas on and near the pipeline's route, this stimulus brings substantial gains in the local economies, as well as long-term property tax revenues.

The Perryman Group estimates that for the state as a whole, **TransCanada's ongoing and potential pipeline investments in Kansas lead to an increase in business activity of \$683.2 million in total expenditures, \$486.5 million in output (gross product), and 6,721 person-years of employment. Tax receipts stemming from this business activity during construction are a significant source of revenues to the State (\$15.0 million) and local taxing entities (\$2.9 million). The counties along the route also enjoy hundreds of millions of dollars in new property tax revenues which will support needed public outlays for decades in the future.**

These investments represent an important component of the national pipeline system that assures reliable energy delivery, thus improving national energy security. In addition, their construction and development is a sizable source of funds for the State of Kansas and local governmental entities.

APPENDIX: Detailed Sectoral Results

**The Impact of the Capital Outlays Associated with the Construction and
Development of the Keystone XL Pipeline on Business Activity in Kansas
Detailed Industrial Category**

Category	Total Expenditures (2009 Dollars)	Gross Product (2009 Dollars)	Personal Income (2009 Dollars)	Employment (Person- Years)
Agricultural Products & Services	\$7,001,903	\$2,773,199	\$2,005,708	36
Forestry & Fishery Products	\$118,518	\$157,211	\$61,845	1
Coal Mining	\$834,861	\$351,295	\$392,805	3
Crude Petroleum & Natural Gas	\$5,140,836	\$1,639,287	\$803,266	4
Miscellaneous Mining	\$570,116	\$397,837	\$249,372	3
New Construction	\$330,273,279	\$237,090,280	\$208,533,499	3,251
Maintenance & Repair Construction	\$7,416,832	\$5,632,180	\$4,924,954	77
Food Products & Tobacco	\$16,863,825	\$6,370,788	\$3,456,889	64
Textile Mill Products	\$179,492	\$61,070	\$54,905	1
Apparel	\$2,986,414	\$2,436,087	\$1,312,469	40
Paper & Allied Products	\$2,005,468	\$1,288,289	\$618,635	11
Printing & Publishing	\$3,028,756	\$2,193,024	\$1,520,282	29
Chemicals & Petroleum Refining	\$15,191,464	\$3,450,292	\$1,722,847	14
Rubber & Leather Products	\$2,000,061	\$1,267,928	\$788,153	17
Lumber Products & Furniture	\$1,669,188	\$748,166	\$567,995	13
Stone, Clay, & Glass Products	\$4,119,306	\$3,062,031	\$1,707,546	31
Primary Metal	\$6,726,977	\$3,023,885	\$2,401,159	40
Fabricated Metal Products	\$16,999,089	\$10,084,757	\$6,945,853	132
Machinery, Except Electrical	\$2,201,843	\$1,327,059	\$1,009,310	12
Electric & Electronic Equipment	\$1,898,160	\$1,477,347	\$940,400	9
Motor Vehicles & Equipment	\$1,213,772	\$376,994	\$260,344	4
Transp. Equip., Exc. Motor Vehicles	\$640,669	\$397,810	\$276,532	3
Instruments & Related Products	\$463,772	\$304,152	\$246,098	3
Miscellaneous Manufacturing	\$919,458	\$526,227	\$385,841	7
Transportation	\$13,777,059	\$13,393,791	\$9,417,573	144
Communication	\$8,752,701	\$7,802,532	\$3,533,626	35
Electric, Gas, Water, Sanitary Services	\$18,919,019	\$6,110,342	\$2,825,935	13
Wholesale Trade	\$17,241,751	\$17,211,936	\$10,558,834	131
Retail Trade	\$45,851,908	\$54,059,523	\$34,231,954	989
Finance	\$6,000,387	\$4,748,025	\$2,939,644	29
Insurance	\$7,994,467	\$6,993,166	\$4,443,725	59
Real Estate	\$40,356,309	\$7,814,411	\$1,337,074	13
Hotels, Lodging Places, Amusements	\$4,387,797	\$3,299,110	\$2,295,457	62
Personal Services	\$9,169,170	\$7,999,601	\$6,585,574	122
Business Services	\$31,975,340	\$30,460,277	\$26,468,773	356
Eating & Drinking Places	\$20,023,968	\$16,705,494	\$9,413,731	469
Health Services	\$14,843,694	\$14,943,971	\$13,396,005	244
Miscellaneous Services	\$12,810,315	\$7,632,262	\$7,025,606	185
Households	\$594,301	\$874,509	\$910,418	70
Total	\$683,162,244	\$486,486,146	\$376,570,636	6,721

SOURCE: US Multi-Regional Impact Assessment System, The Perryman Group

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Salina Journal

We give you more

Pipeline prosperity

9/26/2010

Brothers Benny and Marty Wallace were initially shocked when a visitor from Price Gregory construction company stopped by in early May. Then they realized what a boon had just landed in their laps.

The Wallaces, co-owners of Bud's Tire Service in Clay Center, welcomed Ned Erwin, truck foreman for the Houston-based company that is building a 108-mile portion of the Keystone crude oil pipeline, which will run from Canada to Cushing, Okla., and possibly to Houston.

The 36-inch line would be passing by about four miles east of Clay Center, and Erwin had targeted Bud's to be his tire supplier during Price Gregory's months-long stay in the area.

"(Erwin) handed me a list and said, 'We're gonna need you to stock these tires,' " Benny recalled.

The Wallaces politely debated the gentleman from Oklahoma, saying they normally wouldn't stock such a massive amount of inventory.

Not to worry, Erwin told his soon-to-be suppliers. The company offered to buy back any inventory not sold when they pull out, likely sometime in November, Benny Wallace said.

The brothers were sold on the idea, and soon the upstairs and basement of their business were stocked with new rubber.

"It's been a very good relationship," Benny said. "They're awesome people to work with."

Ditto for many businesses in Clay Center, Junction City, Abilene, Herington and any other towns along the north-south corridor where the pipeline is being built and buried 4 feet underground.

The \$12.2 billion project -- nearly \$1 billion in Kansas -- will transport oil sands -- a heavy form of crude oil -- from north of Alberta, Canada, to delivery points in Illinois and Cushing, Okla., said Jim Prescott, spokesman for TransCanada, a company building the pipeline. TransCanada transports oil and natural gas throughout North America.

Pending regulatory approval, he said, the line will extend to refineries in south Texas.

"It's been great for us," Benny Wallace said.

Good times, good times

Good times, thanks to the pipeline, have been taxing to Bud's Tire Service's 11 employees -- Benny and Marty included -- especially during some blistering hot days in July and August.

HOUSE ENERGY AND UTILITIES

DATE: 11/27/2011

ATTACHMENT 7-1

3 PM

"We've pushed them as hard as we could," Marty said.

Up to five big trucks and trailers -- some with 28 wheels -- or other vehicles, would often be waiting when the Wallaces arrived for work at 7:45 each morning.

"These guys are like clockwork. The sooner they were rollin' the happier they were," Benny said.

Price Gregory has 60 pickups, 20 big trucks and some old school buses, not to mention multiple tons of heavy equipment.

"We have a lot of rolling stock," said Gerreld Wiggins, of Chekotah, Okla., Price Gregory's purchasing agent.

Wiggins keeps pipeliners stocked with everything from paper towels to fuel.

"My warehouse looks better than some stores," he boasted, and when supplies begin to wane, Price Gregory buys from local suppliers.

"I try to help out everybody I can," Wiggins said.

Bud's 'Referral Service?'

Bud's Tire Service makes occasional service calls, some after hours, to the construction sites.

Work days were long at times, but fruitful.

By nightfall, "We were all ready to go home," Marty Wallace said. "We sweated from head to toe."

Pipeline business continues at Bud's Tire Service, but Benny said demand has diminished as the pipeline moves farther south. Much of the work is being done now near Herington in southern Dickinson County.

For a few months anyway, the pipeline has tripled Bud's Tire Service's commercial business, Benny said.

"There should be a pretty good Christmas party this year," Marty said.

The business has also served as a referral center for services not offered at Bud's, such as an air conditioner needing attention in one of the "shacks" that are lowered over the pipe connections while they're welded together.

"If I get in a bind, I call up Benny or Marty and they take care of it for me," Wiggins said.

"One day they called and said they needed a boat that two guys could get in and two life vests," Benny Wallace said. Other requests have come in for a doctor and a dentist.

"They've helped the whole county out," Wiggins said.

Bunch of nice fellas

Some 670 pipeline workers are staying in several towns, including Clay Center. They fill up bars, cafes and motels, patronize grocery stores, buy clothes, hardware and other supplies. Some are living as far west as Salina.

Campgrounds in Milford are clogged with pipeline workers, and business has been brisk at Milford Tropics, a bar and grill in the town with 600 permanent residents.

"It's been nice to have them around," bartender Carrie Kautz said.

Sales have doubled in recent months, Milford Tropics owner Brad Roether said.

"We have a campground four blocks away and across the street. It's so easy for these guys to walk up after work, grab a beer or whatever," he said. "And what a bunch of nice fellas. These pipeliners have been first-class folks."

Primarily union workers, they live in Idaho, Wisconsin, Texas, Oklahoma, Missouri, "all over the United States," Roether said. "They're here to make money. Most of them only work six months out of the year."

Some of the pipeline workers brought boats and they frequent Milford Lake on days off, said pipeline worker Casey Jones, 25, of Idabel, Okla.

"There's pipeliners in (Milford Tropics) from the time they open until the time they close," he said.

Pipeliners giving back

Being close to Milford Lake, the town of Milford attracts a wide range of customers, tourist-types, Kautz said. "They don't care about the community. They get in fights."

Not so with the pipeliners.

"They give back to the community," Kautz said. "It's been nice to have them around."

The workers "have a ball," purchasing agent Wiggins said, but the boss, project superintendent Tom Hardwick, insists on good behavior both on the job and during off hours.

"If he finds out you've been naughty, you won't be naughty long," Wiggins said. "You'll be gettin' that last check."

Price Gregory and TransCanada place intense focus on public perception, and doing right by communities and landowners, Prescott said.

As the pipeline snakes across Kansas, under rivers and roads, across fields, the workers always respect the land and people, he said.

Nutrient-rich topsoil that's essential in raising crops is removed first and segregated. After the line is buried under 4 feet of soil, the goal is to leave the land as close to the way they found it as possible.

"It's like taking a cake apart and putting it back, layer by layer," Prescott said.

Sales tax receipts

Sales tax receipts so far have been lower than in 2009, said Calvin Wohler, city clerk in Clay Center, but there is currently only data through June.

He speculated that times would have been worse without the pipeliners.

"They really helped out the economy this summer, versus what it would have been without them," he said.

For the entire project, TransCanada will acquire easements for up to 4,000 miles of pipeline. Construction workers need a 110-foot-wide strip of land, and when the pipeline is complete, the permanent easement is 50 feet wide.

"It's essentially buying land and then giving it back," Prescott said.

The wives get involved

Spouses and other family traveling with the pipeliners do community service projects, said Joanne Hardwick (Tom's wife), Calvin, Okla., Price Gregory's environmental coordinator. The volunteers did painting in Clay Center's Utility Park. They worked with an animal shelter in Junction City, and upgraded a park in Chapman.

"It gives the ladies something to do, helps us feel like we're involved in the community," Hardwick said.

When Prescott learned that the Clay Center Community Chamber Orchestra lost funding from the Kansas Arts Commission, he gave them \$1,000 from TransCanada, said Andy Contreras, director of the Clay Center Chamber of Commerce. Price Gregory's home office sent \$500.

The contributions "pretty much rescued" the orchestra from their cash crunch this year.

TransCanada and Price Gregory, each donated \$1,000 for the Geary County Community Hospital Hospice Care golf tournament, Joanne Hardwick said.

Price Gregory rents land for supply yards in towns along the route, such as an old sale barn not far from Bud's Tire Service.

"It's a company you wish was here all the time," Benny Wallace said.

Some benefits are short-lived. The section of the pipeline from Steele City, Neb. to Cushing, Okla. -- nearly 300 miles -- is expected to be mechanically complete by Oct. 31 and will be put into service by early 2011.

The pump station pay-out

The workers will move out, but potentially lucrative remnants are the pump stations placed every 50 miles. TransCanada bought the land for those stations outright.

The station near Clay Center will be equipped with four and eventually five 6,500-horsepower electric motors, said Bill Callaway, director of the Clay Center Public Utilities Commission.

The stations are needed to push the oil down the line, pressurizing it to 1,440 pounds a square inch. By the time it reaches the next pump station, the oil pressure diminishes to 50 psi, Prescott said.

To keep those motors running, Clay Center intends to provide power, which could produce about \$500,000 a year in revenue to the city. That one large customer could slash electric rates assessed to Clay Center residents by up to 20 percent, Callaway said.

"It's a gift that's going to keep on giving," the chamber's Contreras said.

Revenue that Clay Center receives from TransCanada will pay to build a 14.5-mile, 115,000 volt transmission line from southern Clay County to Clay Center, and then to the pump station, Callaway said. That line will be built next year and is expected to cost \$6 million.

"If it wasn't for us selling power to TransCanada, Clay Center Public Utilities would have to build that line," Callaway said. TransCanada will service that debt, plus lower electric rates for Clay Center customers.

That revenue will have some staying power. Prescott said there is a 100-year supply of oil in Canada's Sands Region.

"This isn't a tennis shoe factory that's gonna move away in 10 years," Callaway said. "We're very excited about it."

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Sheehan Pipe Line buys locally, union crews do "goodwill" work

Michael McDermott

Augusta Gazette

Three hundred union workers are coordinated from the Sheehan Pipe Line Construction Co. office in the former furniture store west of Augusta. to go about their oil pipeline installation work in a methodical manner, but they and the company take time to help the community when they are off the job site.

Since their arrival this spring, the construction firm and workers from various unions have sponsored two benefits as part of their "goodwill efforts" for Augusta.

One benefit raised monies for the Tolbert family after the loss of their son Dustin in a kayak accident on the Walnut River, just south of town.

Ladies of the union workers organized the fundraiser and nearly 800 employees donated prizes for a raffle and an auction. Sheehan Construction donated a \$500 Dillons gift card. CRC Evans donated a 42-inch diameter fire ring. Local 101 operators made a \$500 cash contribution, Universal Pegasus also donated money along with other employees.

The total proceeds from the Tolbert Benefit were \$11,000.

Dusty Barbee, a welder enduring a lifelong physical disability due to an ATV accident was also benefitted by the project officials and workers.

Arnold's Custom Seeding donated a set of golf clubs and a barbecue grill for a raffle. Northern Clearing Inc. contribute a barbecue smoker and a welding steward gave a "limited edition Case XX knife" to the fundraiser. PeBan USA made a cash donation along with Universal Pegasus and workers.

The City of Towanda recently received a \$10,000 donation from the TransCanada Keystone project. This community, north of Augusta, is also close to the transcontinental oil pipeline project from Canadian oil fields to Texas gulf ports.

City officials there intend to use the money to improve parks and recreation facilities.

Thousands of dollars have been spent at Augusta area businesses by the company and its employees.

Locally, that list includes

- Fleming Feed & Grain of Leon.
- Global Propane of Andover.
- Southwest Butler Quarry of Augusta.
- ACE Hardware of Augusta.
- Emprise Bank.
- Alan's Excavating.
- Ford of Augusta.
- Mi-Te Electric.
- Parks Chevrolet.
- Parks Dodge.

- PK Pro Kleen.
- O'Reilly Auto Parts.
- Augusta Rental.
- Augusta Saw & Mower.
- Pr-Diesel Truck Service.

Other regional firms which have also supplied goods or services are in Wichita, Newton, El Dorado, Cedar Point, Marion, Hillsboro, and Winfield.

Sheehan's

Union

Employment

(at Augusta)

97

Operators

from Local 101

79

Laborers

from Local 1290

41

Teamsters from Local 795

84

Pipeline

Welders

from Local 798

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**KEYSTONE PIPELINE SYSTEM
PROJECT UPDATE**

Kansas House of Representatives Committee on Energy and Utilities

January 27, 2011

Construction

Keystone Phase 1:

- Construction involved Marshall, Nemaha, Brown and Doniphan counties
- Construction in Kansas was completed in late 2009/early 2010
- Keystone Phase 1 included not only Kansas, but construction over two years in North Dakota, South Dakota, Nebraska, Missouri, and Illinois
- Pipeline operations began in June 2010
- No serious issues or concerns.

Keystone Phase 2:

- Construction from Steele City, Neb, to Cushing, Okla., a distance of 300 miles through Washington, Clay, Dickinson, Marion, Butler and Cowley counties
- Construction on Keystone Phase 2 was completed in December
- Current activities include line fill, testing and commissioning phase prior to placing this stretch of pipeline in service in Q1 2011

Benefits to Kansas

- Construction activities in Kansas produced new spending of \$683 million, increased personal income by \$376 million, and generated more than \$17 million in tax revenue for state and local governments
- Keystone had roughly 1,200 workers on the job in Kansas; they bought groceries, clothes, furniture, equipment, and places to make repairs to their trucks and gear.
- Keystone bought supplies from local vendors...fuels and oils for the heavy equipment, rock, gravel, lumber, welding sticks, office supplies
- Keystone made \$50,000 in community investments in Kansas

HOUSE ENERGY AND UTILITIES

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ATTACHMENT 9-1

Benefits to the U.S.

- The Keystone Pipeline Project invests \$20 billion into the American economy.
- It provides 20,000 construction and manufacturing jobs. It provides a safe, reliable and secure of Canadian and American oil resources for American refineries.
- It helps reduce U.S. dependence on oil from Venezuela, the Middle East and other OPEC countries.
- Canadian oil is the cheapest oil American refineries can buy; refiners secure Canadian crude oil at a discount – approximately \$60 per barrel of Canadian crude versus \$86 per barrel for oil from the Middle East
- Keystone will provide more access to cheaper Canadian oil by displacing higher-priced foreign oil from the Middle East and Venezuela.
- Keystone XL Pipeline will carry a significant portion of American crude oil to key hubs, provide transportation alternatives for the fastest-growing onshore oil play (Bakken) and provide American refineries with access to much cheaper Canadian oil.
- **Keystone XL will provide significant investment into the American economy, high-quality jobs for American workers and a safe and reliable supply of Canadian and American oil.**
- **This is why business organizations, significant labor organizations and many legislators currently support it.**
- If American refiners purchase cheaper Canadian oil and U.S. crude oil from Montana and the Dakotas through Keystone XL, they can afford to sell gasoline and diesel at lower prices to American drivers.

###

STATE OF KANSAS

COMMITTEE ASSIGNMENTS
CHAIRMAN: VISION 2020

MEMBER: ENERGY AND UTILITIES
GOVERNMENT EFFICIENCY
AND FISCAL OVERSIGHT
JOINT COMMITTEE ON ENERGY
AND ENVIRONMENT



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Testimony: HCR 5005 – 10-Year State Energy Plan

Mr. Chairman, Members of the Committee: HCR 5005 represents an opportunity for Kansas to assume a larger leadership role in this nation's energy debate. Since the first oil crisis in the 1970s, the public and elected officials have called for a National Energy Plan. Presidents Carter, Reagan, both G. and G.W. Bush, Clinton, and Obama have called for development of plans and investment in energy research.

For forty years, calls for action have been made; for forty years, little of substance has been accomplished at the federal level. Little more has been done by most states and those that have taken action generally do so in piece-meal fashion.

Only four states do not have fiscal crises – all four are large energy exporters. In his State-of-the-State Address, Governor Brownback called for Kansas to increase energy exports from renewable sources and fossil fuels. However, simply increasing energy exports is not enough – we must use our energy more wisely, stimulate investment and research into new technologies, provide guidance to our state's citizens, and create employment opportunities for our children and grandchildren.

HCR 5005 presents measurable objectives for our state to develop our energy resources, use them more wisely, guide research and investments, and establish Kansas as the national leader in developing a comprehensive policy guideline.

HCR 5005 establishes the following targets to be achieved by the year 2020:

Energy Production:

- a) 20% of electricity consumed and produced to be from renewable resources – this is the statutory requirement today;
- b) All Title IV landfills to capture at least 90% of methane gas that otherwise would escape into the atmosphere or convert municipal waste to synthetic gas to generate electricity or fuel motor vehicles;
- c) 2% of gasoline sold in Kansas to contain cellulosic ethanol;

Energy Storage:

- a) 5 energy storage projects to address either generation, transmission, or distribution inefficiencies

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Conservation and Efficiency:

- a) Reduce expected increase in electric energy consumption from 15% to 10% without a change in the quality of life experienced by Kansans (this can be accomplished by improved efficiencies on the part of the electric utilities, consumers, or a combination);
- b) Utilities shall strive to have at least 70% of transmission and distribution line segments and appurtenances and at least 50% of customer meters be "smart grid compatible;"
- c) Existing coal-fired generation units shall reduce the rate of their carbon dioxide releases per BTU to an amount equal or less than 125% of natural gas generation plants constructed in 2009;

Transmission:

- a) 1,000 miles of new or upgraded high voltage transmission lines

Research:

- a) Private and public sectors to generate \$500 million in grants, sponsored research, and sales in the areas of increased energy production, efficiency, reduced carbon emissions;
- b) \$75 million target beginning 2012;
- c) Supported by Kansas Bio-Science Authority, Kansas Development Finance Authority, Department of Commerce, Kansas Board of Regents;

Workforce Development:

- a) Kansas Department of Commerce and Kansas Board of Regents to enhance workforce development, recruitment, and training programs that lead to an employment growth rate in energy production, conservation/efficiency, research sectors of 15% per year.

I remind Committee members that Concurrent Resolutions do not have the force of law, they provide guidance. You may ask why we should waste time and money on a measure that does not compel compliance with energy-related targets. The answer is that without measurable, generally agreed upon objectives, state policy-makers, the public, and interested sectors of our economy have no clear idea of what a coordinated energy plan/economy should be and what investments should be made. An energy plan will provide guidance to the Kansas Corporation Commission, utilities, researchers, businesses and investors, and the public. Just as we have the Kansas Bio-Science Authority setting forth a vision for statewide investments and action, so too do we need a statewide energy plan going forward.

Conclusion: If the objectives specified in HCR 5005 are not the best ones for our state, then I encourage you to suggest alternatives and/or additions. A 10-Year Plan is subject to modification as goals are achieved, new targets are identified, and the global energy market changes. Many of us campaigned on the basis of jobs creation, responsible energy policies, increasing energy exports, and supporting research and innovation. HCR offers the people of Kansas and us the opportunity to gauge our success over time and establish Kansas as the premier energy policy state.

Thank you for your attention, I look forward to your questions.

TESTIMONY TO THE
KANSAS HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND UTILITIES
REGARDING HCR 5005
January 27, 2011

Jeff H. Risley
Executive Director
Climate and Energy Project
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Mr. Chairman and members of the Committee, thank you for the opportunity to address you regarding HCR 5005.

My name is Jeff Risley, and I am the Executive Director of the Climate And Energy Project (CEP), a not-for-profit organization that supports energy efficiency and renewable energy initiatives in Kansas and the rest of the Heartland.

This is a resolution, so entirely voluntary and best understood as a set of goals. As such, CEP finds much to support. Were this a bill, much more would need to be known about costs and benefits, avenues for compliance, and so on.

CEP appreciates two key aspects of the resolution:

- First, it is forward-looking. It establishes the framework for a long-range plan for energy policy in our State.
- Second, it is forward-thinking. By addressing renewable energy, energy storage, energy efficiency, transmission, job creation and carbon emissions, the resolution recognizes these issues are interdependent and the way of the future.

Specifically, CEP supports a goal of 20 percent of all electricity used by Kansas customers coming from renewable sources by 2020.

The capture of methane from landfills for power production makes good sense and is often economic today. As we have testified in the past, whether capturing 90 percent of methane in the right number, we don't know. However, we support the flexibility given landfill owners to use the methane directly or convert it into synthetic gas bio-fuel.

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We also support the spirit of generating cellulosic ethanol. In Kansas, we have an enviable biomass resource. Crop waste and dedicated energy crops like switchgrass and prairie grasses (as lands move out of CRP) can greatly expand biofuel production. ICM and Abengoa Energy are both commercializing this technology now. Abengoa expects to begin construction on a plant in Hugoton this year that will produce cellulosic ethanol and electricity from ag residue.

In addition to Biomass, Kansas is rich in wind. As the second windiest state in the nation, Kansas is more than capable of producing enough energy to exceed our state load. Because it has no fuel costs, wind generators can offer long-term contracts at set prices, offering a hedge against the volatility of traditional fuel prices. Wind energy has already created jobs around the state and attracted world energy leader Siemens to Hutchinson. This is a key growth area for our economy.

Like all energy sources, wind does have limitations. It doesn't blow all the time. Most modern wind farms generate between 25-40 percent of their full, theoretical nameplate capacity, which is why CEP strongly supports the research, development and commercialization of energy storage, which the United States Department of Energy projects will grow in importance on our national grid by 2020.

At present, many energy storage methods are costly. A careful analysis of the costs of storage against the benefits of relieving congestion on the grid – as well as enabling integration of intermittent resources as firm power – will of course be necessary in selecting the right number for energy-storage projects.

Transmission is the lynchpin of any energy plan in Kansas and the Kansas Electric Transmission Authority has done stellar work both in state and at the Southwest Power Pool. CEP is coordinating a nontraditional stakeholder process across the Southwest Power Pool that will eventually field an ambitious peer-to-peer outreach campaign to help communities understand the benefits and burdens of turbines and transmission “in their backyard.” 95% of our original group asserted that our states should export wind and identified transmission as the key to that future. In addition CEP is a member of the NGO caucus of the Eastern Interconnection Planning Collaborative (EIPC), a U.S. Department of Energy transmission planning process for the eastern grid.

We advocate that transmission and generation planning go hand-in-hand; therefore, goals in this resolution might be recast to express outcomes not in miles but in results. CEP supports transmission goals that eliminate congestion, move least expensive power equitably across the state, and move Kansas-produced wind energy to eager markets swiftly and cost-effectively.

Energy conservation and efficiency should be at the heart of our energy policy and we applaud this section of the resolution. Energy efficiency really should be our “first fuel,” maximizing the productivity of the electricity we already generate. Efficiency is less expensive than any new generation, creates no new pollution, and can be considered an alternative resource in transmission and distribution planning.

There is little opposition to efficiency as a concept. However, some are concerned about increased rates and costs on near-term bills, especially for non-participants, and efficiency requires coordination among many to be most effective, and even then can be difficult to measure.

Having said that, CEP supports ambitious goals for utilities to offer customers opportunities to save energy and money and to reduce the anticipated rate of growth of electricity demand from the estimated 15 percent to 10 percent. CEP also supports utilities’ ability to earn a return for shareholders on efficiency investments, just as they receive on new generation investments. However, as earnings are typically predicated on risk, it makes sense for utilities to earn if they hit savings targets and pay penalties should they fail to achieve those targets. Consumers should be assured that their investment really is delaying expensive new generation.

Much of the research and retrofit section of the resolution is outside CEP’s scope of expertise. The goal of reducing carbon dioxide emissions at existing coal plants, while certainly laudable from our perspective, represents massive investments in currently unavailable technology that would almost certainly create a robust and durable consumer backlash. In the near term, as cost effective technology commercializes, we recommend ambitious efficiency and conservation to dampen demand growth coupled with strong renewable growth – from wind energy to combined heat and power, to biomass co-firing – that serves to reduce our state’s carbon intensity.

Thank you, Mr. Chairman and Committee members, for your time and consideration.

Industry Testimony H.C.R. 5005

January 27, 2011

Respectfully Submitted by: Kimberly Svaty

Empire Electric District, Kansas Electric Cooperatives, Kansas Electric Power Cooperative, Kansas Municipal Utilities, Kansas City Power & Light, Midwest Energy, Sunflower Electric Power Corp, and Westar Energy

Good morning Mr. Chairman and members of the Committee,

On behalf the energy industry operating in Kansas, I respectfully submit testimony in opposition to H.C. R. 5005. A resolution nearly identical to H.C.R. 5005 was heard by this committee last year. We oppose this resolution for the same reasons we opposed H.C.R. 6005 in the 2010 session; because we believe that the resolution in many instances contradicts the specific requirements put forth in the comprehensive energy bill that passed the Legislature and was signed into law by Governor Parkinson in 2009. The provisions of that energy bill which was vigorously debated for two full legislative sessions, are being implemented as we speak. You heard testimony on the progress of one aspect of that bill, net metering, earlier this week. The best course of action for the state at this time is to allow the utilities and regulatory entities time to develop, implement, measure and evaluate the effectiveness of the recently passed energy bill and monitor any changes that may come from the federal level. The provisions set forth in this resolution if implemented would add an unnecessary layer of complexity to state energy policy and would add significant cost to the state agencies asked to implement it and to utility ratepayers.

- **Agencies of Jurisdiction** - H.C.R. 5005 calls for six government entities and agencies to work together to ensure that the goals set forth in the resolution are achieved. Four of these entities including the Kansas Board of Regents, the Kansas Bio-Science Authority, the Kansas Development Finance Authority have no institutional background or experience working in the energy or regulated utility realm. The tasks assigned by this resolution would take them away from their primary missions and stretch their resources at a time when resources are scarce.
- **Renewable Energy** - HB 2369 which was signed into law in 2009 included a renewable portfolio standard (RPS) requiring a ten percent integration of renewable resources by 2011 and twenty percent by 2020. The approved RPS was based on the nameplate capacity of operating units. The RPS targets included in HR 5005 are based on actual energy usage which would nearly double the existing RPS requirements. This body engaged in vigorous debate in 2009 over whether to utilize a nameplate or output basis in establishing renewable requirements and nameplate basis represented the final will of the Body. Each utility has made long term commitments to pursue renewable resources based on that decision.

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- **Energy Storage** - The requirement to study and implement five energy storage projects proposed in the resolution could be uneconomical to implement and therefore costly to customers. Utilities currently manage the intermittency of renewable energy by using independent components of their energy portfolios - generation assets, demand response and market elements. In addition, the potential for wind energy in Kansas is largely for an export market. Utilities purchasing the energy will make decisions related to firming and storage that are in the best interest of their customers. Kansas utilities should not have to address energy storage for energy not being used by their customers and should determine the most effective way to manage renewable generation.
- **Energy Conservation & Efficiency** - Utilities are constantly forecasting and modeling load growth in order to ensure customer needs are met. A specific target of reducing energy use is not practical for every utility, especially when customers are not required to reduce usage. There are 41 counties in Kansas that see declining population and negative load growth already juxtaposed to other areas with higher growth in population and energy use. Utilities operating in Kansas have implemented various energy efficiency programs to (1) educate customers about energy consumption; (2) to help stave off the need for additional new baseload generation; and (3) to reduce peak demand.
- **Transmission** - The Kansas Electric Transmission Authority continues to aggressively advocate before the Kansas Corporation Commission and Southwest Power Pool for new and upgraded transmission infrastructure for Kansas customers. In addition, all new or upgraded transmission must be approved by SPP. The combined efforts of KETA and the SPP has resulted in transmission project announcements necessary to meet the transmission needs of the state and the region.
- **Research & Retro-fit** – As the committee heard earlier this week, Smart Grid technology is in the "early adopter" phase and Kansas utilities are leading the way in testing and rolling out smart grid assets on their system. It is imperative that utilities can select the most effective and affordable technology that best suits their unique service territories. Smart Grid is a fundamental overhaul of the existing system. Utilities will implement the technology in timeframe that enhances the system while not unduly burdening customer rates.
- **Research & Retro-fit** - The emission or release reduction target is more appropriately addressed at the federal level. This body has spent two full legislative sessions ensuring that our emissions standards are tied to the federal level to ensure that Kansas would not be at a competitive disadvantage. The Environmental Protection Agency is already undertaking the effort of identifying Best Available Control Technologies (BACT) for carbon dioxide.
- **Impacts on Kansans** - Kansas utilities dedicate countless numbers of hours and personnel to ensuring that utility decision making and operation activities minimize customer rate increases while maximizing system efficiency. Costs are rising and we are working diligently to minimize the increase. There are costs however that are beyond our control. Simply complying with the

provisions of the comprehensive energy bill will increase costs to our customers. Requiring growth of employment in the energy sector will increase, not decrease, customer costs unless corresponding reductions in other cost areas from employment growth are identified.

H.C.R. 5005 is a laundry list of concepts that in many instances contradict existing law, increases utility costs, and grows state government in a time when finances are in short supply.

We appreciate the opportunity to stand before you and we all are available to answer questions at the appropriate time.

Citizens' Utility Ratepayer Board

Board Members:

Nancy Jackson, Chair
A. W. Dirks, Vice-Chair
Carol I. Faucher, Member
Stephanie Kelton, Member
Kenneth Baker, Member



State of Kansas
Sam Brownback, Governor

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HOUSE UTILITIES COMMITTEE H.R. 5005

Testimony on Behalf of the Citizens' Utility Ratepayer Board
By David Springe, Consumer Counsel
January 27, 2011

Chairman Holmes and members of the committee:

Thank you for this opportunity to offer testimony on H.R. 5005. The Citizens' Utility Ratepayer Board is opposed to this resolution for the following reasons:

CURB appreciates the intent of HR 5005, which appears to set forth targets related to energy production and consumption in the state of Kansas. Discussions about energy policy in Kansas are always educational and beneficial. Of particular interest to CURB is how different policies may affect the utility bills that Kansas consumers pay.

The targets set forth in this resolution are not the result of public policy discussions and do not appear to be based on a consensus of relevant stakeholders. The targets are aggressive compared to current Kansas policy, and while most are technically achievable they are likely to be very expensive. The cost of meeting these targets will increase the utility rates and utility bills of Kansas consumers and Kansas businesses. Targets should not be set in the absence of information about the cost of meeting those targets.

Of concern to CURB is that the resolution states that "*we believe that Kansas' public, elected policymakers and executive agency personnel should have specific targets for energy development, consumption and cost containment*". While the resolution does set forth energy consumption and development targets, the resolution is silent on cost containment. If this resolution moves forward, some language must be included that modifies or excuses the need to meet a target if consumer impacts are too high. For example, a percentage increase cap in utility rates could be included.

In addition, by 2020, the resolution:

- Requires that at peak generation and consumption periods 20% of all electricity used by Kansas residential, commercial and industrial customers shall have been generated from renewable resources. The current Kansas Renewable Energy Standards Act requires 20% of "peak" load by 2020 be from renewable resources. Meeting the resolution target, which is based on energy, rather than the current

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law, which is based on peak, will require far higher expenditures than currently required for renewable resources.

- Requires the KCC to coordinate with the Kansas Electric Utilities and the Southwest Power Pool to study and implement five energy storage projects to cost effectively address transmission line constraint relief, distributive generation reliability, electric distribution system reliability, and to firm renewable energy generation. While it may be technically feasible to use energy storage devices to accomplish some or all of these goals, requiring five be implemented when it is unclear whether any will be cost effective is an arbitrary requirement.
- Requires that growth in electric demand be cut to no more than a 10% increase without consumers experiencing a quality of life degradation. Kansas utilities currently have successful programs to reduce demand growth. While the 10% target is perhaps technically possible, further discussion would be needed to develop an economic profile for meeting this target. Further, the costs to achieve this reduction will likely increase rates to some customers. Higher rates will lead to higher bills for some consumers, making it difficult to say that the second requirement, that quality of life not be degraded for consumers, can be met with any certainty.
- Requires that 1000 miles of new and upgraded transmission be approved and constructed. There is no guidance regarding whether Kansas needs 1000 miles of transmission built or where the 1000 miles of transmission would be built. This is an arbitrary target with no technical or economic support. In addition, Kansas currently building transmission without this target.
- Requires that existing coal fired generation units shall reduce the rate of their carbon dioxide releases per BTU to equal or less than 125% natural gas generation plants constructed in 2009. CURB knows of no technology at this time that could be used to meet this target.

While CURB welcomes the opportunity to discuss Kansas energy policy, including how different energy policy initiatives will affect Kansas consumers and whether and how appropriate targets can be used to provide incentives to utilities, CURB opposes this resolution and the targets set forth therein.