



Testimony Provided to the

House Energy and Utilities Committee - January 12, 2012

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Chairman Holmes and Members of the Committee,

Thank you for the opportunity to provide brief information on the impact of various new regulations issued by the United States Environmental Protection Agency (EPA). Specifically, our comments will address the Reciprocating Internal Combustion Engine (RICE) rules and the recent Cross State Air Pollution Rule (CSAPR).

Colin Whitley, General Manager of Kansas Power Pool, sends his apologies that he is unable to attend this morning's hearing. There were unavoidable scheduling conflicts. KPP is a collection of thirty-four Kansas communities served by municipal electric utilities who have pooled their generation, transmission resources and collective buying power to help procure and provide safe, reliable and low-cost power supplies to the customers of their communities. KPP began May 1 of 2005 and has grown rapidly in membership and services offered to communities since that time.

The first matter to discuss relates to an effort to revise or repeal a recent initiative of the U.S. EPA referred to as RICE NESHAP. The rule has a troubling impact of the on municipal electric utilities operating in Kansas. The regulation will require older dual-fuel generating units to either undergo very expensive and extensive environmental retrofits or shut down. The impacted generating units are critical to maintaining the reliability of the state's electric system. Cities are faced with having to decide how or even if they can afford to retrofit their units. There are 306 impacted electric generation units in 56 Kansas communities totaling 603 megawatts (MW) of existing electric generation at risk. Two communities have already made the decision to shutter their power plants because the costs to convert or retrofit are too costly and further impact already financially stressed local communities.

The Kansas Power Pool Board of Directors has approved an initiative whereby KPP will issue bonds to upgrade 49 of the most critical generating units that are used to the benefit of all KPP member cities. By KPP issuing bonds for the environmental retrofits, the individual cities with an impacted unit(s) are not responsible for the cost of the project. In addition, by pooling the individual units into one project, KPP can lower interest rate financing because larger bonds attract more competitive rates from bond holders.



We have engaged in discussions with a host of policymakers at all levels to discuss the final rule. Alongside KMU, KPP has supported testimony before two Kansas legislative committees, met with Kansas Department of Health and Environment Secretary Moser as well as Governor Brownback. In addition, KPP has met with EPA Region 7 officials, testified before the EPA on the impact of the rule and, through the considerable assistance of Senators Moran and Roberts, had legislation introduced in both the U.S. Senate and U.S. House of Representatives that would overturn the rule for municipal electric utilities, rural electric cooperatives and agriculture irrigators.

Recently, EPA announced a proposed settlement regarding the number of hours that a RICE unit may be operated as “demand response” in emergency situations. While this upward increase in the number of hours of operation from 15 hours to 60 hours per year is a positive sign, it will actually have little impact on the KPP membership. Last year, KPP filed comments on the EPA demand response reconsideration process as part of a municipal utility coalition through Kansas Municipal Utilities (KMU). It is our understanding that currently the RICE rule only allows use of the demand response hours when the regional transmission organization (RTO) – the Southwest Power Pool (SPP) in our case – declares a grid-wide or widespread emergency. Since municipal utilities in Kansas are largely served on low-voltage transmission lines, this effectively disallows use of the demand response approach for the most common situations in which they would be needed. Utilizing the demand response provisions of the RICE rule would require changing the definition of emergency as currently included in the rule. Both KMU and the American Public Power Association (APPA) offered proposed language on how emergency situations might be defined in the largely small, rural and “behind-the-meter” municipal communities. The recently announced settlement did not include any reference to changing the definition.

Regarding CSAPR, KPP and its member cities are affected because of our wholesale relationship with Kansas utilities who are directly impacted. For example, KPP receives 50MW of power off of Westar's Jeffery Energy Center. The operation of JEC could be altered by CSPAR. Those changes whether in price, scheduling, shedding load or environmental retrofitting will be felt by KPP member city customers as well. KPP is in regular contact with our wholesale power suppliers to determine specifically how KPP will be impacted. KPP's energy portfolio strives to achieve a balance in generation resources with a mix of coal, natural gas, hydropower from WAPA, Grand River Dam Authority and Bowersock as well as 12.5MW of wind energy from the Greensburg Wind Farm to serve as a buffer nevertheless we too will share in the costs to comply.

We are happy to stand for questions at the appropriate time.