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FORREST J. KNOX

HB 2446

Renewable Energy Standard

House Energy & Utilities Committee Hearing

13 March 2012

Chairman Holmes and Honorable Committee:

I stand before you today to support the action of the Kansas House of Representatives when they approved action taken to set limits on when and under what circumstances the current RES would be allowed to advance as scheduled.

Let's look at where we are today and how we got here. Today we have a requirement that 10% of our peak electric generation nameplate capacity be renewable. This is scheduled to increase to 15% in 2016 and to 20% in 2020.

I hope we can agree that we have arrived at this situation by political intrigue. I'll illustrate.

About twenty years ago alarmists declared that catastrophic global warming was occurring and that it was caused by an increase in atmospheric carbon dioxide coming from the release of man-made carbon dioxide produced from the burning of fossil fuels. "The sky is falling."

While it is unusually warm outside today, in the 80's, and the climate does seem to be in a long-term shift (as climate does, historically) the catastrophic part, predicted long ago, hasn't yet happened. Though atmospheric carbon dioxide levels are indeed increasing and we are certainly burning lots of fossil fuels and the climate is changing, causation is still in scientific dispute. Nothing particularly earth shaking about climate change; politics is another matter.

A while back the Secretary of KDHE, under the direction of then Governor Sebelius, denied the air permit necessary for the construction of Holcomb coal-fired power plant, and this after all the scientists at KDHE had completed their work and approved the permit. There was something

HOUSE ENERGY AND UTILITIES

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ENERGY & UTILITIES (VICE CHAIRMAN)
FEDERAL & STATE AFFAIRS
JT. COMMITTEE ON STATE-TRIBAL RELATION:
JT. COMMITTEE ON ENERGY AND ENVIRONME

DATE: 3, 14, 2012

ATTACHMENT 2.

said about carbon dioxide being a threat to humans and the environment, and despite the lack of any basis for such a statement in any law or regulation anywhere in this country, Holcomb was stopped.

A political struggle ensued and resulted in a compromise agreement, a political compromise to get Holcomb built, that yielded our present RES situation. The RES is in place so that we could get the needed power plant built. But it has not been built.

Environmental extremists brought law suits and have stopped the construction of Holcomb, maybe for good. Increasingly stringent EPA regulations may well keep it from ever being built. Political intrigue.

Meanwhile, federal and state subsidies make wind energy marginally economically viable. The Kansas RES and the soon-to-expire federal production tax credit, PTC, have pushed a massive wind build this year that will more than double the wind energy production resource in Kansas. Most of this new wind generation will be exported from the state.

Accordingly some wind manufacturing industry has moved into the state.

The future? We are told that a carbon-constrained world is coming. I find no scientific basis for this, but there very well could be a political basis for this. No one knows.

What are our options?

No matter what, fossil fuels will continue to provide the bulk of the energy needs of this country. There is no other choice in this, as there is nothing else that will be able to provide the needed energy. New technology is providing an abundant domestic supply of fossil fuels. Markets will keep prices moderate unless politics forces prices up.

If wind energy truly competes economically in the market place, as we have heard it can, the RES is not needed.

If the government artificially drives the costs of energy very high in a governmentally carbon-constrained world, the RES will be unnecessary. Wind could make sense at up to 20% or so of generation.

The RES is presently artificially driving up electric rates for consumers. We've heard this in testimony. If the RES remains in place and is allowed to increase on schedule and conventional energy remains reasonably priced, rates will increase greatly. This is a political reality.

Worst case scenario is if the PTC expires and the RES remains in place. In this scenario rates will spike. If the PTC expires, the wind industry dies (there are no orders for next year). If, then, the RES remains in place in Kansas with no PTC, everything becomes very expensive to build.

We arrived at this situation politically. Let's deal with it politically. This is the logic for linking the continuation of the RES with the construction of Holcomb, which was the original reason that we got the RES. Also linking the RES to the continuation of the federal PTC may be wise. An amended version of the bill could say that if Holcomb is built and the PTC continues, then we could phase in the next step up of the RES a few years after construction has begun. This gives the utilities future regulatory certainty so there are no surprises.

Another option may be to give the KCC guidance to make sure the utilities use least-cost methods to produce the needed energy. They can project out far enough to provide regulatory certainty.

Political compromise is possible while still protecting rate payers from arbitrary rate increases.

Thank you for your favorable consideration of HB 2446. I look forward to finding language which the committee can agree on.

[Based on Westar handout & testimony]

[Knox
14 MAR 2012]

Generation Type	Capital \$/Kw	CP	Capital \$/Kw/produced	Bushar \$/KwH
Coal	2235	85%	2629	7.3
IGCC	3565	85%	4194	10.6
CT	665	5%	13300	17.0 (2.50 gas)
		15%	4433	21.1 (7.50)
				29.8 (15.00)
CCCT	1000	25%	4000	6.8 (2.50)
		60%	1667	10.2 (7.50)
				15.2 (15.00)
Nuclear	6066	90%	6740	12.1
Wind (Cany Valley)	2000	40%	5000	6.0 (50x avg.)

(1st 10 yrs 3.3 \$/KwH + 2.2 \$/KwH \$400 million
 2nd 10 yrs 3.3 \$/KwH only \$4 million/yr expenses
 → at best a few % ROI!)