

MINUTES

KANSAS ELECTRIC TRANSMISSION AUTHORITY

June 10, 2014

Kansas Corporation Commission, 1500 SW Arrowhead Road, Topeka, KS

Members Present

Earnie Lehman, Chairman
Tim McKee, Secretary
Les Evans
Senator Marci Francisco
Representative Dennis Hedke
Representative Annie Kuether

Staff Present

Cindy Lash, Kansas Legislative Research Department
Heather O'Hara, Kansas Legislative Research Department
Matt Sterling, Office of Revisor of Statutes
Rebecca Wempe, Stevens & Brand, LLP
Rebecca Cole, Committee Assistant

Chairman Lehman called the meeting to order. The agenda for the meeting was reviewed and items requiring a Committee vote were moved forward on the agenda. *Mr. McKee moved to approve the agenda as re-ordered; the motion was seconded by Mr. Evans. The motion carried.*

Mr. McKee moved to approve the minutes of the January 8, 2014, meeting; the motion was seconded by Representative Kuether. The motion carried.

Chairman Lehman opened discussion and nominations to fill the vacant position of Vice-chairman. *Mr. McKee moved to nominate Representative Hedke. Mr. Evans seconded. The motion carried.*

Chairman Lehman recognized Rebecca Wempe, Stevens & Brand, LLP, to discuss the renewal of the contract for legal services. The current agreement ends June 30, 2014. Stevens & Brand LLP has provided services to KETA since June 12, 2007. The contract proposes no change in rates. The contract is reviewed annually (Attachment 1). *Vice-chairman Hedke moved to approve the eighth amendment to the contract with Stevens & Brand, LLP, for one year. Mr. McKee seconded the motion. The motion carried.*

Chairman Lehman asked Cindy Lash, Kansas Legislative Research Department (KLRD), to review the Extension of Agreement for Administrative Services Summary with KETA members. Ms. Lash stated for the last several years KETA has encumbered funds to pay KLRD \$1,000 a month for services provided (Attachment 2). *Mr. McKee moved the continuation of the*

arrangement and to encumber \$1,000 per month for services provided. Representative Kuether seconded the motion. The motion carried.

The Chairman recognized Ms. Lash, KLRD, for presentation of the expenditure report. Ms. Lash stated the report, dated through May 31, 2014, shows a transfer of \$200,000 to the Public Service Regulation Fund, as directed by KETA. Total expenditures for the year to date were \$219,054, with encumbrances of \$27,336. The FY 2014 balance as of May 31, 2014, was \$144,470. No action was taken (Attachment 3).

Chairman Lehman welcomed Grant Wilkerson, Director of Marketing Structure and Compliance, Westar Energy, for a presentation on the implementation of the Southwest Power Pool (SPP) Integrated Marketplace. Mr. Wilkerson noted the SPP Market is performing similar to other integrated marketplaces at their inception. Westar's generation units compete individually in the Marketplace, not as a fleet, and the combustion turbines are being dispatched about three times more frequently than when Westar controlled the dispatch. He said it is common to see an increase in use of combustion turbines during the start of an integrated market, and anticipates the numbers will come down as SPP becomes accustomed to dispatching for the entire Marketplace. Mr. Wilkerson continued to clarify for the Board how the Day Ahead market operates. The Day Ahead market requires submission of loads and bids for generation by 11:00 a.m. on the previous calendar day. Westar will not know if its generators were selected to run until 4:00 p.m. SPP will then run a reliability assessment that determines if it needs to turn on more generators or back off some due to low loads and will notify utilities by 8:00 p.m. of any adjustments needed. Utilities are required to bid in enough generation to cover their load. In the Real Time market, utilities must offer in all their generation resources. Some of the challenges in the Marketplace overall have been in determining in advance how much natural gas is needed and refining wind forecasts.

In response to questions about negative energy pricing in the market, Mr. Wilkerson said it does occur. For example, if a utility plans to serve a certain amount of load in the Day Ahead market but in real time there is less load than anticipated or there is more wind generation than forecasted, there will be excess generation. The Integrated Marketplace will incentivize a reduction in generation by setting a negative price. This means a generator would pay SPP to take the extra power if it wanted to continue to generate. Some wind farms will continue to generate until the negative price declines to a level that is not offset by the Production Tax Credit, taxes, and other. In response to questions about whether gas storage was being discussed (in light of pipeline constraints), Mr. Wilkerson replied there have been discussions, but not on the regional level. The market will ultimately determine whether it is more economical to build more generation or develop more storage or transmission (Attachment 4).

Chairman Lehman welcomed Justin Grady, Chief Auditor, Kansas Corporation Commission (KCC), for the KCC's audit perspective on implementation of the Integrated Marketplace. The audit section is immediately impacted by the Marketplace, because it is their job to follow the energy cost adjustments for all the utilities. In the Marketplace there are currently 63 charge types that settle every five minutes in real time, compared to five charge types in the past. In addition, some new federal accounts are being utilized that deal with interactions within Regional Transmission Organizations. Mr. Grady provided an example of how complexity has increased: under FERC Order 668, energy sales and energy purchases occurring in the same interval that is clearing have to be netted against one another. Previously, these settlements occurred on a 24 hour basis, but in the Integrated Marketplace the settlements occur every five minutes. The KCC formed a work-group last fall to begin preparing for the implementation of the Marketplace; in addition, the audit staff meets weekly for training and development of new audit procedures. In response to a question about increased staffing,

Mr. Grady indicated they have not added any positions so far, but hope to fill three existing vacant economist positions.

Mr. Grady said because of changes resulting from the Marketplace, Westar requested and received a change in its tariff regarding off-system sales. Neither KCPL nor Empire require a tariff change, but all three utilities have agreed to enhanced reporting. KCC has discussed with SPP the need for some type of study to assess whether the Marketplace is achieving the predicted \$100 million annual net benefit. KCC also is exploring the utilization of software to review the performance of Kansas utilities in the Marketplace. The software could provide information about the utilities' bidding strategies, whether there are lost opportunities, and the effectiveness of asset utilization. In response to a question about staffing, he noted the actual cost of the Integrated Marketplace will not flow through a Commission proceeding until the spring of 2015. In response to a question about the software, Mr. Grady stated he hoped it would allow KCC to assess the utilities' day-to-day management of their performance in the Marketplace. KCC has not yet coordinated with other states on the potential shared interests in software, but SPP is aware states are interested in assessing their utilities' performance ([Attachment 5](#)).

In response to a question about the projected savings from implementing the Marketplace, Mr. Wilkerson replied much of the savings was due to not operating as many generators at one time; the savings was due to fuel. In response to a question about whether revenues from the Marketplace will be sufficient to compensate utilities for the increased wear and tear on their equipment caused by frequent up and down cycling at SPP's behest, Mr. Wilkerson said it is difficult to know how much Westar degrades an asset every time it starts up a combustion turbine because Westar doesn't have a history of frequent re-starts. It is a concern and they are watching it carefully. In response to a question about whether there have been changes in the areas with transmission constraints because of the Marketplace, Mr. Wilkerson said they are beginning to see some shifting, but it is at least partly caused by the planned outages of substations as the new east-west transmission lines come on line.

Written transmission updates were provided to the KETA Board from Westar Energy, ITC Great Plains and CleanLine ([Attachments 6-11](#)).

Chairman Lehman recognized Heather O'Hara, KLRD, for a review of 2014 transmission-related legislation. HB 2488 and HB 2487 were passed and signed by the Governor, while several other transmission-related bills were considered but not enacted. HB 2488 amended the purpose, membership, and authority of KETA. HB 2487 made several changes to the current law regarding issuance of certificates of public convenience by the KCC. Because this was the last year of the biennium, the bills that did not pass the Legislature would have to be re-introduced for consideration in the next legislative session ([Attachment 12](#)).

Chairman Lehman thanked the Senate and House Utilities committees for all their hard work during the 2014 Legislative Session.

Chairman Lehman opened discussion on creation of an Advisory Committee, as authorized by recent legislation. Discussion by members touched on the following points:

- There is no need to rush into establishing the Advisory Committee;
- Currently, KETA is not at full-strength, given the vacancy in the position of Chairperson of Senate Utilities and the two new member positions to be

appointed by the Governor. It would be helpful to have input from the new members, but it is uncertain when the positions will be filled;

- It would be beneficial to reach out soon to all types of electric utilities and transmission companies, developers, consumer advocates, legislators, and other interested parties to request input on the questions, issues, and concerns the Advisory Committee might address. The KETA notification list and website should be used to request input; and
- KLRD should collect and compile the responses, and provide them to KETA members before the third quarter's meeting. Members will decide if they want to begin discussion or wait for additional members to be appointed.

Following discussion, *Representative Kuether moved KLRD request comment from utilities (IOU's, municipals, co-ops, transmission-only), developers, consumer groups, legislators, and all interested parties regarding the ideas and issues the KETA Advisory Board should focus on, with responses to be provided by July 31, 2014. The motion was seconded by Representative Hedke. The motion carried.*

Chairman Lehman recognized Ms. Lash for background information on the FY 2016-2017 Budget Request. The amount of the request will need to be determined at the next meeting. She noted the request has been for \$100,000 in most years. Annual expenditures ranged from \$3,450 to \$70,000 in FY 2006 through FY 2013. In 2014, KETA transferred \$200,000 in unexpended balances to the Public Service Regulation Fund. The addition of two new members will increase expenditures (Attachment 13).

The Chairman discussed upcoming SPP meetings. The Regional State Committee and the Board of Directors Members Committee meetings are July 28-29, 2014, in Omaha, Nebraska, at the Embassy Suites. Senator Francisco stated she plans to attend (Attachment 14). *Mr. McKee moved to allow KETA members to be reimbursed for expenses associated with attending the July 28-29 meeting. Representative Kuether seconded the motion. The motion carried.*

Chairman Lehman adjourned the meeting at 11:24 am.

Respectfully submitted,
Tim McKee, Secretary

Approved by the Authority on:

September 19, 2014

(Date)