MINUTES

KANSAS ELECTRIC TRANSMISSION AUTHORITY

September 19, 2014
Kansas Corporation Commission, 1500 SW Arrowhead Road, Topeka, KS

Members Present

Earnie Lehman, Chairman
Representative Dennis Hedke, Vice-chairman
Tim McKee, Secretary
Les Evans
Senator Marci Francisco

Member Absent

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
Tamera Lawrence, Office of Revisor of Statutes
Rebecca Cole, Committee Assistant

Chairman Lehman called the meeting to order. The agenda for the meeting was reviewed. *Vice-chairman Hedke moved to approve the agenda; the motion was seconded by Mr. McKee. The motion carried*.

Chairman Lehman opened the meeting by honoring former Senator Pat Apple for his past service on KETA and as the Kansas Corporation Commission's (KCC) newest Commissioner. Commissioner Apple was appointed to the KCC by Governor Sam Brownback in March 2014.

Mr. McKee moved to approve the minutes of the June 10, 2014, meeting; the motion was seconded by Vice-chairman Hedke. The motion carried.

Chairman Lehman welcomed Carl Monroe, Executive Vice President and Chief Operating Officer, Southwest Power Pool (SPP), for a presentation on the Clean Power Plan, Integrated Transmission Planning, and the Integrated Marketplace results. Mr. Monroe reviewed sources and relative amounts of energy capacity and consumption in the SPP footprint in 2013. Although about one-third of the capacity comes from coal and a bit more from gas, coal accounted for more than 60 percent of the energy consumed. That pattern is largely similar for Kansas, except that Kansas and Nebraska are the only states in SPP with nuclear capacity and generation. The impact of EPA rules may not be much of an issue with the actual capacity from coal in SPP, but it will affect the cost of the energy. Mr. Monroe discussed the anticipated total generation from coal in SPP by 2018 and losses of coal units primarily due to EPA's Mercury and Air Toxins (MATS) Rule. Kansas has about five gigawatts of capacity from coal. The only information SPP has received so far about reductions in capacity are some de-ratings due to additional equipment that had to be installed to meet the MATS requirements. In one case, the equipment de-rated the capacity of the unit itself by nearly 300 megawatts. This has no bearing on the impact of the Clean Power Plan; the impact of EPA's Cross-State Air Pollution Rule is also unknown.

The Clean Power Plan, also referred to as the 111(d) Rule, sets out four methods states can use to meet the Plan's emission reduction goals for 2030:

- Energy efficiency;
- Renewable and nuclear energy;
- Increasing the use of combined cycle plants; and
- Heat rate improvements in coal plants.

SPP was asked by its members to analyze whether it could reliably operate the transmission system based on these building blocks, doing exactly what the EPA suggested to reduce CO_2 emissions. SPP built a model for 2024 that removed units planned for retirement and tried to increase use of combined cycle plants, but SPP could not get the model to solve. SPP likely will provide these test results to the EPA. In response to a question, Mr. Monroe explained failure to get the model to solve means it is possible the system would collapse or that SPP would have to remove load, creating numerous operational issues. The bottom line is the system would not operate to serve the load reliably. SPP will respond to EPA with a letter requesting adequate time to implement the changes necessary to respond to EPA rules. In response to a question, Mr. Monroe said he believes SPP is the only entity to have conducted a reliability analysis; others have focused their efforts on economic analysis. The North American Electric Reliability Corporation (NERC) will be conducting reliability tests of the entire Eastern Interconnection, with results anticipated in December or January. In addition, SPP's Regional State Committee will be looking at the costs of implementing the Clean Power Plan.

Mr. Monroe reviewed EPA's projected retirements for electric generating units from 2016-2020. For Kansas, EPA projects about 600 megawatts of coal and a bit of oil and gas will be retired. Within SPP, EPA's projected retirements alone will result in increased thermal overloads and low voltages. If the Clean Power Plan is implemented as proposed, everyone will have to change the way they run their generation or build their generation in order to continue to meet necessary reserve margins. Changes to the Rule that would help would be to focus on multi-state areas rather than requiring a state-by-state response and to allow adequate time to build additional transmission, an 8.5 year process. In response to a question about how the uncertainties surrounding the Clean Power Plan affect SPP's planning process, Mr. Monroe stated SPP will proceed with its annual near-term plans, which look six years into the future, and will delay the start of its 10-year plan. The 20-year plan will not be conducted.

Mr. Monroe addressed Integrated Transmission Planning (ITP) and discussed the current ITP 10, which was to be completed in January 2015. To respond to FERC Order 1000, which calls for a competitive environment in building transmission, SPP created a process to develop the solutions (transmission projects) needed and then asked parties to bid on building the projects. For the ITP 10, SPP received about 1,200 designated project proposals from 27 submitters, and for the ITP Near Term, it received about 500 proposals from 24 submitters. This is a lot of solutions to evaluate, approximately three to four times more than before the competitive process started. In response to a question, Mr. Monroe explained voltage issues affect both people and equipment. Voltage issues in southwest Kansas are of concern because they affect delivery of generation from wind and coal to the eastern part of Kansas, as well as transmission in the Oklahoma Panhandle.

Mr. Monroe discussed implementation of the Integrated Marketplace in March 2014. The goal of the Marketplace is to use the generation and transmission assets that are in place in the SPP footprint most effectively. Currently, SPP has 122 market participants and has seen very good results. Capacity surplus has decreased, which creates large savings for members. The marginal cost of energy production has decreased; hedges have been maintained; revenue neutrality charges have been relatively low; and financial disputes have been lower than anticipated. New changes to the Marketplace include a gas-electric industry harmonization effort that may require changes to the electric day to better line up with the gas transportation day or *vice-versa*.

In response to a question, Mr. Monroe said it was his understanding there was an intent for EPA to have more collaboration with FERC and others before issuing rules to make sure they are coordinating activities. The Government Accountability Office (GAO) also recently said these parties needed more coordination. EPA did not coordinate with SPP on the 111(d) Rule. In response to a question about the status of the capacity accreditation evaluation for renewable resources, Mr Monroe explained some of the parties who had renewable wind and solar were concerned they did not receive enough credit for their resources during peak time, when SPP needs it the most. Those parties went to the Generation Working Group, which was able to identify through statistical analysis the renewable resources that were available more during peak times. This allowed their capacity to be accredited at a higher rate. The change in the accreditation process was approved at the SPP meetings in July. (Attachment 1).

Chairman Lehman directed members' attention to the written transmission updates in their folders (Attachments 2, 3, and 4).

The Chairman recognized Cindy Lash, Kansas Legislative Research Department (KLRD), for presentation of the FY 2014 Final Expenditure Report. Ms. Lash stated the report, dated through June 30, 2014, showed an ending balance of $143,874. Because KETA moneys are now in their own fund, rather than being in an account within a fund, the ending balance does not have to be reappropriated; it will automatically carry over from year to year (Attachment 5).

Ms. Lash continued with the FY 2015 Financial Report To-Date. With the additional appropriation for FY 2015 of $100,000, KETA began the year with $243,874. The balance remaining on the FY 2014 Stevens & Brand encumbrance, $23,658, was carried into FY 2015 as an encumbrance for the firm. The balance for FY 2015 as of September 16, 2014, is $207,323 (Attachment 6).

The Chairman opened discussion of the FY 2016-2017 budget request. Ms. Lash reviewed the history of expenditures starting with the establishment of KETA in FY 2006 through FY 2014. She provided a range of estimates for salary and travel expenses when KETA reaches its full complement of nine members, as well as estimated costs for an Advisory Council (Attachment 7). KETA will submit a two-year budget request in accordance with the Governor's direction to agencies. *Mr. Evans made a motion to request $75,000 per year for FY 2016 and FY 2017. Vice-chairman Hedke seconded. The motion carried*.

Chairman Lehman opened discussion of the KETA Advisory Council. Ms. Lash reviewed the process used to solicit comments from stakeholders and summarized the responses. The Chairman welcomed Larry Holloway, Assistant General Manager of Operations, Kansas Power Pool (KPP), for further explanation of their response. KPP provides wholesale transmission and generation service for 23 member municipal utilities. Mr. Holloway expressed concerns regarding the low voltage transmission (less than 60 kV), noting that reliability of the electric system for customers is tied to the performance of the low voltage system. In addition, small renewable projects rely on the low voltage system to be competitive, and much of rural Kansas relies on the low voltage transmission system. He cited three areas of concern: the low voltage system is aging and supports aging local generation; in many areas there is a lack of nearby high voltage transmission facilities, which limits economic development; and the Mid-Kansas Electric Cooperative has not placed its low voltage transmission systems under the SPP tariff, which drives up costs for customers. In response to the question of whether there is a simple solution to this problem Mr. Holloway said Mid-Kansas could put all its 34.5 kV lines under its transmission tariff and recover the revenue requirements, or it could spin off all its 34.5 kV lines to a separate entity and operate it under the SPP tariff (Attachment 8).

KETA members discussed how to proceed with the Advisory Council. Mr. McKee noted many respondents wanted the Advisory Council to focus on the EPA's 111(d) Rule. The Department of Health and Environment is deeply involved in developing a 111(d) plan and might be a resource. Chairman Lehman noted several respondents also suggested greater KETA involvement with SPP, which could possibly be accomplished with Advisory Council members. KETA members expressed a consensus that these two areas would be a good place to start. Discussion turned to the type of members that should be represented on the Council, with a consensus that at this point KETA is not looking for names of potential members, but rather for categories of representatives who could assist KETA, such as municipal utilities or transmissions. Following discussion, Chairman Lehman stated members of the Authority are encouraged to send Ms. Lash their suggestions for the types of members who should be appointed to the Advisory Council and the subjects they would request to be considered by the Council. These suggestions will be considered at the next meeting.

The Chairman discussed upcoming SPP meetings. The Regional State Committee (RSC) has a teleconference scheduled for September 29, 2014. The annual meetings of the RSC and the Board of Directors Members Committee are October 27-28, 2014, in Little Rock, Arkansas. Vice-chairman Hedke, Senator Francisco, and Mr. McKee stated they might be able to attend (Attachment 9). *Mr. McKee moved to allow KETA members to be reimbursed for expenses associated with attending the October 27-28 meeting. Vice-chairman Hedke seconded the motion. The motion carried.*

Senator Francisco reported on the July meetings of the RSC and the Board of Directors Members Committee she attended in Omaha (Attachment 10).

The next KETA meeting is scheduled for December 5, 2014. Chairman Lehman adjourned the meeting at 12:16 p.m.

Respectfully submitted,
Tim McKee, Secretary

Approved by the Authority on:

December 5, 2014
(Date)