MINUTES

SELECT JOINT COMMITTEE ON ENERGY

December 14-15, 2005
Room 313-S—Statehouse

Members Present

Representative Tom Sloan, Chairman
Senator Jay Scott Emler, Vice Chairman
Senator Janis Lee
Senator Carolyn McGinn
Senator Mark Taddiken
Representative Joann Freeborn
Representative Tom Hawk
Representative Carl D. Holmes
Representative Forrest Knox
Representative Annie Kuether

Staff

Mary Galligan, Kansas Legislative Research Department
Raney Gilliland, Kansas Legislative Research Department
Hank Avila, Kansas Legislative Research Department
Bruce Kinzie, Revisor of Statutes Office
Mary Torrence, Revisor of Statutes Office
Heather Klaassen, Intern, Kansas Legislative Research Department
Renae Hansen, Committee Secretary

Conferees

Bruce Graham, Kansas Electric Power Cooperative
Representative Kenny Wilk, Kansas House of Representatives
Representative Carl D. Holmes, Kansas House of Representatives
Ed Cross, KIOGA
Dick Brewster, BP
Tom Palace, Petroleum Marketers and Convenience Store Association of Kansas
Curt Wright,VP Operations, Taylor Oil, Inc.
Marvin Spees, Capitol City Oil, Inc.
Steve Johnson, Kansas Gas Service Company
Terry D. Holdren, Kansas Farm Bureau
Greg Krissek, United Bio Energy
Dr. Richard Nelson, Kansas State University

Patty Clark, Kansas Department of Commerce
Chuck Banks, United States Department of Agriculture, Rural Development
Bill Pracht, Chairman of the Board, East Kansas Agri-Energy
Bob Rhoton, Lawrence Chamber of Commerce Agribusiness Network
Colin Hansen, Kansas Energy Council
Richard Cram, Kansas Department of Revenue
Tony Folsom, Kansas Department of Revenue
Mike Crow, Kansas Department of Transportation
Lieutenant John Eichkorn, Kansas Highway Patrol
Kim Winn, League of Kansas Municipalities
Gavin Young, Department of Administration, Division of Facilities
George Werth, Chief Engineer, Division of Facilities
Chris Howe, Director, Division of Purchases, Kansas Department of Administration
Bill Griffith, Sierra Club
Eric King, Kansas Board of Regents, Director of Facilities
Duane Simpson, Kansas Association of Ethanol Processors
Kenlon Johannes, Kansas Soybean Commission
Joe Spease, Kansas Unbound
Troy Helming, Kansas Unbound

Attendees

See attached list.

Wednesday, December 14
Morning Session

Opening remarks were made by the Chairman who said that the Committee's goal is to do two things:

- Determine how the state will institutionalize energy planning; and
- Examine the long term trends of production, consumption, export, and import of energy into the state, and what the state should and can do to help in this process.

Bruce Graham, who represents Kansas Electric Power Cooperative, was introduced to say a farewell, and introduced Phil Wagnes.

Representative Kenny Wilk spoke to the Committee on the history and nature of the reasons why the Committee was formed. He noted that, historically, research in the area of energy has been conducted by the Kansas Geological Survey. He said that energy has been priced by the supply and demand marketplace approach. Representative Wilk stated that the timing is right economically for renewable energy resources to be used. Representative Wilk then commented on why this time was important for the appointment of a select Committee on energy. He indicated that the standing committees have been more reactive in nature, with less time to think in advance about what direction to help the energy industry move.

Questions from Committee members were asked pertaining to the possible increase in the use of ethanol and wind energy, both highly renewable energy resources.

Representative Carl Holmes (Attachment 1) presented a PowerPoint presentation on global energy production and consumption trends and the impact of domestic pricing. Specifically, he addressed some of the new and existing alternative technologies. He related that the U.S. has a high usage per capita of energy and that other nations currently are undergoing economic growth and are vying for the non-renewable energy resources worldwide. He stated that it is imperative to look at other resources and the viability of their use in our nation. Additionally, Representative Holmes related the impact of natural disasters, such as this year's hurricanes have had on the oil and gas industry and the availability of these products to the marketplace in a timely and cost-effective manner.

Edward P. Cross, Executive Vice President, Kansas Independent Oil & Gas Association (Attachment 2), gave a brief explanation on oil and gas pricing and how the 12 nations of OPEC are the price-makers and the rest of the countries are price-takers. He stated that prices, historically, are controlled by world demand and that any increase in demand has a profound effect on the price. He recommended that research and development in alternate energy sources continue.

Questions were posed by members of the Committee.

One member asked if there was any way that the State of Kansas could help lower some of the costs of production. It was noted that some of the biggest problems that operators have are capital and exploration problems. Currently, there are not enough rigs or people to do the exploration. It was noted that anything the state could do to allow independent producers to keep more of their revenue and invest it back into production in Kansas would be helpful. Additionally, discussion occurred on the issue of whether the State should invest in projects that help lower the overall supply and deplete the state's resources or should it just allow the resources to remain in the ground. One of the responses was that it all depended on the supply and demand factors and the cost of getting the product out of the ground. Another issue discussed was what the state invests to recover oil that may or may not economically benefit the State of Kansas.

Dick Brewster, BP (Attachment 3), gave an overview of the profit margin of being in the oil and natural gas industry. He stated that, historically, the margin is quite low compared to other industries and businesses. Additionally, he relayed information about the cost of adding new refineries. Mr. Brewster stated that it is about 50 percent less expensive to add to existing refinery capacity to process crude oil to other marketable products rather than to build new refineries.

It was suggested that the Committee look at Oklahoma statutes with respect to incentives to get more oil and gas out of the ground.

Questions were posed by members of the Committee.

It was asked if Kansas had the infrastructure in place in the refineries to process more oil if Kansas was able to get more product to the refineries. A discussion ensued that involved information that Kansas does have enough pipeline infrastructure to handle more oil, but that perhaps the age of the pipelines and their physical condition might prohibit the use of the pipelines to transport the oil.

It was asked what type of partnership with a state like Kansas might be possible with BP for refineries and pipelines to get crude product in and out. A further question posed was whether the State of Kansas, through incentives, could credit a research facility in a partnership with our research institutions or the private sector industries to encourage BP to invest in alternate energy sources. Finally, a Committee member wondered whether the refiners, like the natural gas industry, develop a similar type of hedging program either on their own or with governments at the federal or state levels that would address both the price and supply volatility. Mr. Brewster commented that he would get back to the Committee on these issues.

Afternoon Session

The Chairman then called upon Tom Palace, Petroleum Marketers and Convenience Store Association of Kansas (Attachment 4), who introduced two individuals from the Association to provide testimony. Additionally, Mr. Palace presented written testimony that also was presented to the federal government in Washington, D.C. by Bill Douglass, Chief Executive Officer, Douglass Distributing Company, (Attachment 5), on the impact Hurricane Katrina had on the price of gasoline and allegations of price gouging done in the industry due to this tragedy. Included in the testimony are charts demonstrating the price affects during this time.

Curt Wright, VP Operations, Taylor Oil, Inc., (Attachment 6), discussed the strategies that individual retail gas marketers use to price their gas at the pump.

Marvin Spees, Capitol City Oil, Inc., (Attachment 7), discussed the challenges his company has in pricing diesel fuel in the market place and his company's role in offering bio-diesel fuel to consumers.

Questions were asked by members of the Committee.

It was asked what led Mr. Spees to make the investment in the bio-diesel and how the state builds a market for those products. Mr. Spees responded by indicating that his company was in the process of constructing a new facility and that situation made it easier and cheaper to put in the lines at the outset rather than to have to come in and take out existing lines and replace the existing lines with the new desired lines for the renewable resources. Mr. Spees stated that there was a desire to be on the cutting edge, and that there was a future for both ethanol and bio-diesel. He stated that his company wanted to be able to meet those future demands and that his company continually is investigating the optimum levels of usage for bio-diesel.

It was asked if the removal of the labels of the ethanol-blend gasoline increases the use of the product. Mr. Spees responded that is was most likely a pricing mechanism that caused the ethanol usage to increase and not the removal of the labels. One member asked if the label should be required so that individuals know whether they are being more environmentally friendly. The response was perhaps so, but the sales went up purely due to the cost for ethanol.

One member asked if bio-diesel effects lubricity of the fuel and if that factor impacts the sale of the product. The Committee was told that bio-diesel has very good lubricity so it does not affect the usage of the product and, in general, consumers of diesel are much more likely to try this product rather than the ethanol product.

The Committee was told that the consumption of ethanol went up 500 percent when the label requirement went off in July, and it was asked where the ethanol was being blended. The Committee was told that ethanol is blended at the pipeline through injection. Also noted was that there is a problem with bio-diesel as Kansas has only one terminal in the state where the blended product is available and that is in McPherson. It was noted that it would be more advantageous to be able to blend the bio-diesel product locally. Currently, it costs about one million dollars to have each bio-injection pump installed.

The Committee was told that there is an infrastructure problem with the ethanol blending facilities, as there are just not nearly enough terminals to handle the increase in use.

One member asked what it takes to retrofit existing stations to handle compressed natural gas, hydrogen, propane, E-85, and bio-diesel. A number of conferees responded that they are looking for a long-term return on their investment. It was noted that if it could even be revenue neutral for investors, then most people would be willing to take the risk so long as there was a five-year payback.

The Chairman called upon Steve Johnson, Kansas Gas Service Company (Attachment 8), who presented a PowerPoint presentation on the natural gas business with some specific charts noting supply and demand trends and items that effect those markets.

Questions were posed by members of the Committee.

In response to a question, Mr. Johnson stated that hedging on natural gas, allowed two years out by the KCC, does allow his company to keep natural gas prices at a more stable level for the consumer. Additionally, small entities (such as small businesses or large churches) are able to save some money on their heating bills by having some of their gas brought directly to them instead of via traditional pipelines.

One Committee member wondered whether U.S. customers pay more for gas from Canada because it has contracted to sell natural gas to China. Mr. Johnson stated that he hoped to contract for more gas from Mexico, more liquified natural gas from various locations around the world, and have more Rocky Mountain gas. He noted that there may be a need to build additional pipelines to get the gas to the market. One member asked if Kansas needs to offer incentives to increase storage capacity in Kansas. The conferee stated that it would be good and his company would be in favor of it. Mr. Johnson stated that a lot of the gas could be stored in old gas fields, but in many cases we do not know where the field ends and there must be a way to contain it before the storage area could be used.

One member asked if fuel should be marketed and taxed on its BTU value and whether Kansas is better off taxing the BTU value at the end use point. The conferee said he would get back to the Committee on this question.

The Chairman called upon Terry D. Holdren, Kansas Farm Bureau (KFB) (Attachment 9), who presented testimony noting the impact of recent price spikes in fuel and fertilizer to his association's members and offered some potential solutions.

Questions and comments were posed by Committee members.

One member wondered if there were more that our universities should be doing to address the fuel issue.

Another member asked the conferee whether Farm Bureau thought about encouraging fuel switching. The conferee stated that this may not be a viable idea, but that thinking in terms of the larger issues might be useful. He stated that KFB has an affiliated company called Agricultural Solutions that looks for "out-of-the-box" ways to address methods of management, such as hedging and risk management. Mr. Holdren stated that KFB has been engaged in a project which would dramatically impact natural gas usage by converting irrigation engines to 100 percent ethanol. He noted that there are a couple of these new ideas being tested in the state with fairly good results.

The Chairman then introduced Greg Krissek, United Bio Energy (Attachment 10), who presented testimony on recent trends in the bio-energy field and where growth would occur over the next twenty-four months.

Questions and comments were posed by various Committee members.

Mr. Krissek commented that in order to get a loan for an energy-related business there has to be a 25-30 percent profit rate within seven years or the individuals or entity will not get the loan to start the business. In order to have the businesses more locally owned, Kansas needs a system that allows grain producers to be the investors.

Mr. Krissek also indicated that it is imperative that the state examine rail system availability before a site is contemplated so that local communities have the most economical use of the rail system by placing the plants in the proper place. He noted that is the location is transportation disadvantaged that could mean a penny or two a gallon difference and that would jeopardize the success of the project.

One member then asked about cellulose-based ethanol. It was noted that it is possible to start with a grain-based plant and then modify the plant to make ethanol out of cellulose and, in addition, convert it back to a grain-based plant. It was noted that the state has entered a time of applied research on how to use ethanol and there will be many changes, but it may be three to five years out on this. It was noted that there are some private technology companies as well as the opening of the fermentation lab at K-State, with the Dean of the College of Agriculture understanding and supportive of ethanol. It was stated that Kansas is still in its infancy on how ethanol is used.

One member wondered if the state should be trying to provide incentives for 100 - 150 million gallon plants in order to provide market penetration with the objective of getting ahead of Iowa, Minnesota, and the other states. It was stated that what Kansas has done to date is working, and that it is slow and steady and fiscally responsible. The incentive is what helps convince these providing loans that Kansas is serious about ethanol production.

Next to appear before the Committee was Dr. Richard Nelson, Kansas State University (Attachment 11), who discussed bio-diesel. He stated that bio-diesel is a renewable fuel which can meet today's and tomorrow's energy needs in a clean and sustainable manner.

Questions were posed by Committee members.

A clarification was given on the number of outlets that are available both retail and non-retail in the State of Kansas for bio-diesel distribution. Additionally, it was commented that certain retail outlets have the capabilities to give the consumer the precise blend they desire. There is also a website available that one can access in order to find where bio-diesel facilities are located.

It was asked what research K-State could do in the area of research to benefit bio-diesel development. It was noted that there are other entities that are deep into this type of research.

The next conferee was Patty Clark, Director, Agriculture Marketing Division, Kansas Department of Commerce (Attachment 12), who offered testimony on current and future ways in which her agency is offering support of individuals, companies, and local governmental entities to enter the field of ethanol production and distribution.

One Committee member wondered whether the Committee could establish a vision for Kansas that emphasizes increased renewable energy production. It was noted that it will be a challenge for us to find a way to fund the economic growth in this renewable energy production if the state is to be taken seriously in making changes for the future. We need to invest the kinds of dollars in Kansas' rural areas that have been invested in urban areas to promote economic growth.

Chuck Banks, United States Department of Agriculture, State Director, Rural Development, gave a brief overview of programs in the renewable energy area (Attachment 13). He began by sharing a few of the recent developments at the federal level with the US Department of Agriculture's energy policy. He stated that the agency has an annual budget of $15 billion spread across the country. In Kansas, $80 million is available for rural housing development, $50 - 55 million for business and community programs, and a little over $100 million in utility and telecommunications infrastructure financing for fiscal year 2005. The agency administers moneys through partnerships, both in the public and private sectors. The vast majority of his agency's programing is through a partnership with a local lending institutions, rural electric or telephone cooperatives, or local housing authorities.

Mr. Banks stated that it was announced recently by the U.S. Department of Agriculture the establishment of energy strategy rooted in renewable energy and energy efficiency programing. He noted that the announcement created an energy council, chaired by Under Secretary for Rural Development, Tom Door.

Mr. Banks stated that his agency has four general programing areas for renewable energy and energy efficiency assistance, and three other areas that can provide assistance:

- Value added producer grant program;
- Business and industry guaranteed loan program; and
- Rural economic development program.

The Committee was told that over the last four years USDA Rural Development in Kansas has provided nearly a million dollars in renewable energy-related funding assistance, primarily most of that has been in ethanol activity. It also has provided a one million dollar grant to the Department of Commerce for the KSU Ag Innovation Center, primarily for value-added work. Mr. Banks stated that his office has had little interest in the renewable energy area and more interest in the energy efficiency area. It has evolved from its initial beginnings which were all grants, to this year where it is half loans and half grants.

Chairman Sloan asked if the members of the Committee might have a list of federal programs that could be promoted in the State of Kansas. A program information guide that covers about 15 of the major programs USDA offers is available.

The Chairman called upon Bill Pracht, Chairman of the Board, East Kansas Agri-Energy (Attachment 14), who spoke to the Committee on how the Garnett ethanol plant has benefitted and been affected by the Kansas ethanol producer incentive program and other related programs.

One member asked the conferee how many dollars were raised locally. The conferee responded that it was about $20 million. The conferee stated that there are investors from nine different states, but from that initial $20 million about 80 percent is local. The conferee stated that the second equity drive increased the capacity of the plant from 25 million to 35 million gallons. No foreign dollars were invested.

Another member asked if there was a target number in mind when raising capital. The conferee stated that there was no number in mind. The conferee stated that with their bank note 75 percent of the incentive payments go toward principal payments.

The next conferee was Bob Rhoton, Lawrence Chamber of Commerce Agribusiness Network (Attachment 15), who talked about a recent study a group of people from around Lawrence had contracted to determine the viability of biodiesel in Eastern Kansas. He discussed some ideas to stimulate growth on the production of this product in the State of Kansas to make it competitive with surrounding states. He noted for the Committee that there has not been one adversary concerning the possibility of producing bio-diesel in his community. He told the Committee that a study recently was received and it indicated that from an economic competitive standpoint a bio-diesel plant in Lawrence would not be feasible because of the competition from other producers in surrounding states. He stated that, geographically, Kansas is in the best location for shipping the product to the western United States. He told the Committee that it should look at state fleets requirements for bio-diesel usage. Missouri, Oklahoma, and Texas have a 20 cent per gallon economic advantage because of the incentives in those states. The conferee asked the Committee to consider the feasibility of incentives for bio-diesel. State incentive legislation is going to increase production in the states around Kansas, and the state needs to examine how to make this competitive in Kansas.

Representative Sloan tasked the staff of finding out what the legislation in surrounding states pertaining to incentives for bio-diesel production. Mr. Rhoton has available a website where the data he used could be found.

One Committee member asked whether the conferee would favor a direct payment on production as opposed to tax credits. If you look at what other states are doing there has been a lot of combinations. From a producer's standpoint, the group from Lawrence was primarily looking at a producer-owned facility. Therefore, producer incentives would be the highest priority to a group who is wanting to build a plant. The conferee noted that the Committee also should examine such things as infrastructure tax credits or incentives for lenders. He stated some states are offering zero percent interest, debt forgiveness loans, and sales tax credits to build the infrastructure.

Chairman Sloan indicated that he has asked the Revisor's Office to draft a bill modeled on the bio-diesel incentives of other states. He indicated that it would be introduced during the 2006 Legislative Session.

Chairman Sloan called upon Colin Hansen, Kansas Energy Council (KEC) (Attachment 16), who presented ideas for legislative and executive action to encourage renewable energy growth output in the state of Kansas. Additionally, he presented the 2006 conceptual schedule for the Kansas Energy Council with its recent change in membership. Members then asked questions. Jerry Lonnegran, legal counsel for the Kansas Energy Council, answered some of the questions.

Clarification was requested on the issue of payments in lieu of taxes and the court's interpretation of this issue. The conferee stated that much of this has to do with wind farms being put into counties and the fact that there is an exemption of property taxes on the turbines. An effort was made by officials involved with the Gray County wind farm project to provide some funding in lieu of the fact that they had a property tax exemption. It was stated that the project in Butler County is being reviewed by the courts and the county counsel is searching for a way to clarify the issue of payments in lieu of taxes.

Mr. Hansen stated that, at this time, the Kansas Energy Council is refocusing its energy on a couple of different priorities instead of trying to address a whole host of issues. Mr. Hansen stated that he thought that instead of trying to draft an energy plan every year that hits many points, the concept KEC is examing is really trying to focus and do an in depth study on that, and in subsequent years build on different subjects. On the point, Chairman Sloan reminded the Committee that one of the charges to it was to look at the focus of the Energy Council. It was then asked if the Attorney General had been asked his opinion on whether that change could be made. It was subsequently answered that the idea had been discussed but there still is no clear answer.

The meeting was adjourned by Representative Sloan and he stated the Committee would reconvene December 15, 2005 at 9:00 a.m.

Thursday, December 15
Morning session

The Chairman called the meeting to order and called upon Richard Cram, Kansas Department of Revenue, who presented testimony related to non-property tax-related incentives connected to energy (Attachment 17).

Tony Folsom, also from the Kansas Department of Revenue, appeared on behalf of Mark Beck (Attachment 18). Mr. Folsom presented information on energy-related property tax incentives primarily related to energy companies and their ownership of valued property that would otherwise be taxed under current law.

Questions and comments pertaining to these tax incentives were posed by several Committee members.

One member asked if there could be some clarification on the issue of county and state jurisdiction in the gas gathering valuation process. It was noted that a gas gathering line which crossed a county line would be assessed by the state. The Committee learned that a case before the Supreme Court changed that and made all gas gathering state-assessed property, despite the fact one company may be in just one county. The Committee member asked if the state is capable of keeping up with the valuation of all the lines. The answer is most likely no, since there is insufficient staff to keep up with the workload.

Another member asked if there is a record of individuals who could apply for these tax exemptions, in order for them to be contacted to ensure they are getting the exemption for which they are qualified. The response was that there are not available records, with the clarification that the agency does not believe the application process is keeping these individuals from applying.

Another question concerned the tax incentives introducing the income tax credit for certain service stations of up to 40 percent, with a $160,000 maximum, and whether that can that be carried forward and for how long. The response was that it can be carried forward a maximum of three tax years and is not a sellable credit.

The next question concerned the existing incentive for ethanol and how is works for old and new producers. The response was that if you are a new producer, you have to produce at least five million gallons and if you are an old producer, you have to produce five million gallons above what you produced in the past. Then, you are eligible for up to seven years. The incentive program lasts until 2010. It was noted that new legislation is needed to extend that sunset date.

Mike Crow, Kansas Department of Transportation (Attachment 19), presented testimony relating to the agency's use of alternative fuels and energy-conservation efforts. In addition to the written testimony, it was relayed to the Committee that when the Department modernizes a building, it puts in more energy-efficient windows and doors.

One member wondered if it is more difficult for state workers to purchase alternative fuel now that the state removed the labeling requirement. The response was in the affirmative. It was noted that the state attempts to comply with the requirement.

Lieutenant John Eichkorn, Kansas Highway Patrol, then offered testimony on behalf of Colonel William Seck, relating to energy conservation practiced by the Highway Patrol (Attachment 20).

One Committee member asked questions on the specifics of exactly how many vehicles and what types were affected in this energy-saving endeavor.

The next conferee was Kim Winn, League of Kansas Municipalities (Attachment 21), who relayed information about what the cities in Kansas are doing with respect to energy conservation. She noted that most are aware they need to be doing this, but because of budget constraints are having a difficult task in accomplishing all that they would desire to achieve in the area of energy conservation.

One member asked if it was possible to use demand transfers as an incentive to proceed with energy-saving measures at the local level.

The next conferee was Gavin Young, Department of Administration, Division of Facilities, who introduced George Werth, Chief Engineer, Division of Facilities. Mr. Werth presented testimony relating to energy conservation efforts by the Department of Administration, Division of Facilities Management (Attachment 22).

Chris Howe, Director, Division of Purchases, Kansas Department of Administration (Attachment 23), also spoke specifically about conservation issues involving fuel purchases, vehicle purchases, and computer and electricity consumption.

One Committee member asked if the state buys its natural gas through a bidding process. The response was that because the staff buys in such quantities, it is able to get the natural gas cheaper than the market price. Additionally, it was noted that the state tries to take advantage of hedging opportunities.

The next conferee was Bill Griffith, Chapter Chair, Kansas Sierra Club (Attachment 24), who discussed energy efficiency and then reviewed the role of renewable energy in crafting a solution to Kansas' future energy needs.

The Committee then discussed with the conferee various issues, including net metering. During the discussion, "vibrant net metering" was defined as net metering that turns the meter both backward and forward to the energy producing entity, be it corporate or individual. It also was defined as a situation that requires no waiting time for the benefit to be realized to the entity, so that the bureaucratic paperwork is reduced and is user friendly and not confusing. Additionally, it was suggested that the independent generator needs to pay for some of the costs that are imbedded in the transmission of the energy and that a philosophical conclusion of promoting renewable energy overrides the policy of fairness of transmission. It was noted that each state needs to decide for itself whether or not metering is advantageous.

One member suggested that individuals in Kansas need to be thinking about rewarding people or companies for conserving energy, as opposed to just producing or consuming renewable resources.

The Committee briefly discussed energy efficiency which may need to be tied to income, so that the wealthy are not given money for doing what they should do anyway.

The Chairman called upon Eric King, Kansas Board of Regents, Director of Facilities (Attachment 25), who outlined specific energy conservation efforts which each of the six state universities were doing to help use less energy.

It was noted that there is a variance in the usage of E10 by all the Regents institutions. It was suggested that there be a reminder sent to those universities that are not using E10 to start using it as mandated by the state.

Duane Simpson, Kansas Association of Ethanol Processors (Attachment 26) was the next conferee. He relayed how the state could have a positive influence on ethanol sales and production in Kansas.

Members wondered about the extent of out-of-state investors in the new ethanol plants in Kansas. It was noted that currently the size of the problem with out-of-state investors is not clear. Committee members stated they would like to find a way to ensure the dollars used to help investors help those investors who are Kansans. Additionally, some members stated that it would be preferable to get the incentives to the consumer and not to the businesses themselves.

Kenlon Johannes, Kansas Soybean Commission (Attachment 27), then gave members of the Committee information on policies that would enhance the usage of bio-diesel (demand side) and also would help production increase (supply side). Additionally, he discussed policies in place in different states that were a positive influence on bio-diesel usage. Also attached to his testimony was a state-by-state assessment of current laws or incentives which encourage the usage and production of bio-diesel.

Joe Spease, Kansas Unbound (Attachment 28), presented testimony that suggested ways renewable energy sources could be used to create jobs, boost the economy, help our schools, help farms, and clean the environment. He stated that energy could be exported from Kansas with the proper investments.

Troy Helming, Kansas Unbound, further discussed the barriers to the use of wind power in Kansas and additionally, the benefits of using Hythane as a viable renewable energy resource (Attachment 29). Mr. Helming additionally offered ideas presented by other states to reduce the usage of non-renewable resources and to promote a more “green” energy usage.

A Policy Working Paper prepared by Kansas, Inc. (Attachment 30), then was distributed to the Committee. The paper explored the possibilities for new oil refineries in the State of Kansas.

Afternoon Session

Chairman Sloan began the afternoon session by asking the members what specifically the Committee might task itself and staff to do.

Senator McGinn suggested bringing back local demand transfer moneys as an incentive to promote fuel and energy savings. Representative Sloan asked the Committee to think about how we might tie the local demand transfer moneys to specific types of programmatic things at the local level.

Representative Freeborn wanted specific information on the BTU cost issue for renewable energy versus the BTU cost for non-renewable energy. She was specifically interested in E85. Further, she suggested the use of low-interest revolving loans being made available for energy efficiency for homes or businesses, with the state perhaps picking up a percentage of the interest cost of the loan to lower the cost of funding for the consumer for installation of these efficiency items.

Senator Lee suggested we look at Farm Bureaus' idea of the Renewable Portfolio Study (RPS) for the state, looking at the summary of the studies in other states, and how they were done.

Representative Kuether recommended a side by side comparison of the RPS differences in the states already implementing something of this nature.

Senator Taddiken suggested the examination of extending the income tax credit over longer than three to four years for consumers, with a possibility of making the tax credit sellable. Additionally, he suggested that the state subsidize the use of renewable energy to the end user making the cost to the consumer less and thereby encouraging actual use of the renewable product, as opposed to the subsidy going to the refiner or the blender.

Representative Sloan suggested that the Committee might look at the possibility of attracting investors to the renewable energy-producing plants, in addition to adding consumer benefits.

Representative Holmes reminded everyone that certain parts of the state get fuel supply from other states because of the proximity to those supply stations, and that certain actions the Committee taken, in fact, have no impact on Kansas citizens.

Senator Lee would like to make sure the Committee looks at ideas that have an impact on our state. Specifically, she was interested in ideas that would spur investment in the state.

Representative Sloan suggested the Committee keep its focus on renewable energy sources: wind; locally owned cooperatives for bio-energy; and producer-owned energy operations.

Representative Freeborn was concerned that all of the Regents institutions are abiding by the Governor's directive to continually run their operations in a manor that promotes energy efficiency and conservation. Additionally, she suggested studying the property tax assessment the state has on petroleum reserve storage units. She suggested doing something to lower those taxes to encourage further storage in the State of Kansas.

Representative Sloan stated that the Committee needs to know who, in fact, would take the real financial hit on a reduction of these kinds of property taxes and determine specific monetary amounts that would impact the counties through a loss of revenue.

Representative Holmes suggested that in Southwest Kansas, 75-80 percent of the funding comes from the counties and with the wrong types of incentives being adopted it could potentially dismantle the school financing in those counties.

A discussion occurred on EPA regulations and the impact they have had on coal conversion plants. Representative Holmes reminded everyone that new EPA requirements limit pollution to 15 parts per million, compared to the 500 parts per million required in the past. He noted that this has actually driven some people out of business.

Representative Knox wanted to ensure that the counties continue to maintain their tax revenues. He asked the Department of Revenue to examine the cost to the counties impacted by the Supreme Court ruling that took away local jurisdiction for purpose of accessing gas gathering lines. He would like to see the total economic impact of this change to each county and would like to propose some kind of bill that would remedy the Supreme Court ruling and allow each county to have some sort of taxing authority so they do not suffer a reduction in income.

Additionally, it was recommended that studies provided by Kansas State University be used to ensure that when potential ethanol plants are sited, in Kansas that the most viable selection point be chosen.

Representative Freeborn suggested that, as a legislative body, consideration be given to show support for the development of the outer continental shelf for natural gas production. Representative Sloan suggested this might best be handled in a legislative resolution.

Representative Freeborn reiterated that whatever we can do to stimulate growth in refineries in the State of Kansas would be important to pursue. It was suggested by Representative Sloan that the state examine some of the ideas presented by Representative Holmes that would offer monetary incentives for current refineries to expand their production capabilities.

Senator Taddiken reminded the Committee members about Representative Holmes' idea to use coal and coke by-products to produce NH3, or anhydrous, for crop production. Representative Holmes encouraged the Committee to look at helping these types of plants to expand the use of these waste products. Senator Emler suggested contacting the other two refineries to see what they do with their coke by-product and determine what it would take for them to enter the anhydrous production market.

Senator Taddiken brought up the problem of our workforce meeting the demands of oil and gas refinery production. Representative Knox suggested that we encourage the state's technical schools to train people for this industry so that we do not lose potential workers to other fields. Senator Lee suggested we would have to put money behind this notion, as it is not cost effective for the state's technical schools to add new programs. She stated that perhaps the businesses themselves need to look at helping to fund some of these training programs in order to funnel competent trained workers into their work environment.

In closing, Representative Sloan asked the Committee to think about the recommendations that the Committee wants to make. He reminded members that the Committee is authorized to meet five times, and that the next scheduled meeting would take place January 5-6, 2006, and the Committee would meet a fifth time on the first or second Friday of the 2006 Legislative Session.

Meeting was adjourned.

Prepared by Renae Hansen
Edited by Mary Galligan and Raney Gilliland

Approved by Committee on:

January 5, 2006
(date)