

SESSION OF 2006

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 414

As Amended by House Committee on
Utilities

Brief*

SB 414 would enact the Gas Safety and Reliability Policy Act. Beginning July 1, 2006, a natural gas public utility would be able to petition and propose rate schedules with the Kansas Corporation Commission (KCC) to establish or change gas system reliability surcharge (GSRS) rate schedules. These changes would allow for the adjustment of rates in order to recover the costs for eligible infrastructure system replacements.

The bill would define eligible infrastructure system replacements to mean natural gas utility plant projects that:

- Do not increase revenues by directly connecting the infrastructure replacement to new customers;
- Are in service and used and required to be used; and
- Were not included in the natural gas public utility's rate base in its most recent general rate case.

The "natural gas utility plant projects" would be defined under the bill to consist only of the following:

- Mains, valves, service lines, regulator stations, vaults and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities;
- Main relining projects, service line insertion projects, joint encapsulation projects and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

requirements; and

- Facility relocations required due to construction or improvement of certain public works on behalf of the United States, this state, a political subdivision of the state or another entity having the power of eminent domain provided the costs have not been reimbursed to the natural gas utility.

The KCC could not approve a GSRS to the extent it would produce a total annualized GSRS revenue below the lesser of \$1,000,000 or ½ percent of the utility's base revenue level or exceeding 10 percent of the base revenue approved by the KCC at the utility's most recent general rate proceeding.

The bill would prohibit the KCC from approving a GSRS for a utility that has not had a general rate proceeding decided or dismissed within the past 60 months, unless the utility has filed for one or is the subject of a new proceeding. The bill would prohibit a utility from collecting a GSRS for any period exceeding 60 months unless a filing has been made or is subject to a new proceeding.

The bill also would require the utility which files a petition with the KCC for a GSRS, to submit a proposed GSRS and supporting documentation. Staff of the KCC would be required to confirm underlying costs and submit a report not later than 60 days after the filing. The bill would permit the KCC to hold a hearing and require that it issue an order not later than 120 days after the filing. The bill would prohibit a utility from effectuating a change in its rates no more often than once every 12 months.

The KCC would determine the appropriate amount of pretax revenue. The bill would establish the factors in determining the appropriate amount of pretax revenue.

The monthly GSRS change would be allocated among classes of customers in the same manner as was allocated at the utility's last general rate proceeding. The GSRS would be charged to customers as a monthly fixed charge and not based on volumetric consumption. The monthly charge could not increase more than \$.40 per residential customer per year.

Nothing in the bill could be construed to limit the authority of the KCC to review and consider infrastructure system replacement costs along with other costs during any general rate proceeding.

Background

At the Senate Committee hearing on the bill, proponents included representatives of Kansas Gas Service, Aquila, Midwest Energy, and Atmos. Opponents included representative of the KCC and the Citizens' Utility Ratepayers Board.

The Senate Committee on Utilities amended the bill by deleting a portion of the definition of "eligible infrastructure system replacement" dealing with the replacing or extending the useful life of an existing facility; by deleting language relating to worn or deteriorated condition when referring to the system components installed for safety purposes under the definition of "natural gas utility plant projects"; by requiring rather than permitting the KCC staff to examine information to confirm underlying costs; by requiring rather than permitting the KCC staff to submit a report regarding its examination to the KCC; by limiting a utility to effectuate a change in GSRS no more often than once every twelve months rather than twice every twelve months; by limiting the GSRS to be charged to customers and not based on volumetric consumption; and by limiting the increase to not more than \$.40 per residential customer per month over the base rates in effect.

The House Committee amended the bill to clarify the language of the Senate Committee amendment placing a limitation on the amount of increase allowable for the GSRS charge.

The fiscal note on the original bill states that the KCC believes that this bill would have no effect on agency operations. The Citizens' Utility Ratepayer Board (CURB) believes the bill is unclear as to whether or not the agency would be allowed to participate in the GSRS proceedings. Consequently, the agency estimates this bill would have a fiscal effect ranging from zero, if it were not participating at all, to \$40,000-\$80,000. CURB indicates that if it were participating and a full review of the costs and rates is allowed, then it could potentially need an additional \$10,00 per case for outside consulting. The agency estimates that it could participate in four to eight reviews per year. Any fiscal effect resulting from this bill would be in addition to the amounts included in *The FY 2007 Governor's Budget Report*.