



KANSAS

CORPORATION COMMISSION

KATHLEEN SEBELIUS, GOVERNOR
BRIAN J. MOLINE, CHAIR
ROBERT E. KREHBIEL, COMMISSIONER
MICHAEL C. MOFFET, COMMISSIONER

BEFORE THE SENATE UTILITIES COMMITTEE
PRESENTATION OF THE
KANSAS CORPORATION COMMISSION
February 2, 2006

SB 414

Thank you, Chairman and members of the Committee. I am Don Low, Director of the Utilities Division for the Kansas Corporation Commission. I appreciate the opportunity to testify on SB 414 on behalf of the Commission. The Commission opposes this legislation because it does not allow for a determination of the reasonableness of and need for a surcharge based on the individual circumstances of each natural gas utility.

Surcharges such as the proposed GSRS represent what is known as "single issue ratemaking." Single issue ratemaking occurs when customer rates are changed based on only a single aspect of the numerous factors that normally go into determining the revenue requirements for a traditionally regulated company. Single issue ratemaking is a departure from the normal practice of determining appropriate rates by looking at all the expenses, investment, cost of capital and revenues of a utility in a test period. The concern that must be addressed in evaluating single issue rates is that changing rates based on only one factor necessarily ignores potential offsetting changes in other factors. For example, increases in some costs may be offset by decreases in other costs or by increased revenues. If there are such offsetting changes, the rates resulting from the examination of only one factor might not accurately reflect the real financial needs of the company.

This is not to say that such a ratemaking approach is never justified. Indeed, the KCC and other state commissions generally allow for "single issue ratemaking" when there is enough justification to override the general concern that resulting rates might be unreasonable.

The Kansas legislature has provided specific authorization for single issue ratemaking in two situations. K.S.A. 66-117(f) provides for a surcharge by electric and natural gas utilities to reflect changes in the utility's ad valorem tax expenses. K.S.A. 6-1230 *et seq* provided for a similar surcharge for right-of-way fees imposed by cities but it was limited to costs incurred during a short period in 2002 and 2003. In addition, K.S.A. 66-1237 provides for the unbundling of transmission costs and subsequent changes in rates. Although the transmission rate changes are dependent on approval by FERC, they might be viewed as a form of single issue ratemaking.

The KCC has also exercised its discretion under existing law to allow specific surcharges or pass-through mechanisms. The Purchased Gas Adjustment (PGA) and Energy Cost Adjustment (ECA) mechanisms first were allowed in the late 1970's when natural gas and energy costs were volatile and largely beyond the control of the utilities. The ECA was eliminated for some electric companies in the early 90's when energy costs were more stable but has recently been reinstated. The Commission also recently approved of an Environmental Cost Recovery Rider to allow for quicker recovery of Westar's expected investments in pollution control facilities. That ECRR is expected to reduce the overall final costs to ratepayers of the equipments.

In deciding to allow these mechanisms, the Commission has carefully considered whether there was good reason to override the general concerns about single-issue ratemaking. Our concern with SB 414 is that it would not let the KCC undertake that balancing with regard to the specific circumstances of each company. Under subsection 4(b)(4) of the bill, the KCC is required to allow a GSRS for the company if the costs involved meet the bill's criteria. Thus, even if the company were experiencing declines in other expenses or investment that more than offset the costs addressed in the GSRS, the KCC would not have the ability to deny a surcharge. We recognize that there are limitations on the size and duration of the GSRS imposed by the bill. Nonetheless, the concern is that, without vesting discretion in the Commission to weigh the equities, circumstances could arise whereby the surcharge could result in customers paying unreasonable rates. Consequently, the Commission opposes the mandatory nature of this bill.