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CURB RECOMMENDS REDUCTION OF \$36 MILLION FROM KGS REVENUE REQUEST

TOPEKA, Kansas, September 25, 2012. On September 24, 2012, the Citizens' Utility Ratepayer Board (CURB) recommended that the Kansas Corporation Commission reduce the rate increase requested by Kansas Gas Service by over \$36 million.

KGS has asked the Commission for a \$32.7 million base rate increase. On top of that increase, about \$18 million currently being recovered through line-item surcharges will be rolled into base rates. Thus, surcharges will be reduced to zero and base rates would increase by \$50.7 million under KGS' proposal. CURB proposes limiting the increase in base rates to \$14.2 million, a net decrease to total revenues of \$3.8 million.

KGS proposes recovering the entire \$50.7 million from residential customers while proposing decreases for the commercial and industrial customer classes. This will result in a net increase of \$38.5 million to residential rates, because \$12.2 million of the base rate increase is already being paid by residential customers through line-item surcharges. As a result, KGS is actually proposing a larger increase for residential customers (\$38.5 million) than its total request (\$32.7 million), because KGS wants to allocate more of the costs recovered through surcharges and base rates to residential customers.

Consumer Counsel David Springe stated that "We realize that it's confusing, but we want to make it clear that KGS is asking residential customers pay \$5.8 million *more* than the company's entire request to fund decreases for large customers. We want a more reasonable distribution of rates among the various consumer classes."

CURB also recommends denial of KGS' request for a 10.75% return on equity and an overall rate of return of 8.52%. Citing lower costs of capital and deteriorated economic conditions since KGS' last rate case, CURB recommends a return on equity of 8.5% and an overall return of 6.92%.

Additionally, CURB recommends denying recovery of several million in costs related to executive compensation plans. ". . . (I)t seems inconsistent to reward executives with large incentive award payments tied to corporate earnings while at the same time arguing that shareholders require a significant increase in order to earn a reasonable rate of return," stated CURB's witness Andrea Crane. She noted KGS' top executives have enjoyed total compensation increases ranging from 25% upwards to 100% over the last couple of years, during a period when Kansas households suffered real income decline.

CURB recommends a monthly residential service charge of \$15.85, but also offered an alternative proposal to reduce service charges to the \$4 to \$8 range, which would shift cost recovery to volumetric charges. Springe said, "Although all customers would have more incentive to conserve if more of the costs of service were shifted to the volumetric charges, customers who use less would gain the most benefit."

CURB's witnesses recommended denying the proposed "Revenue Normalization Adjustment," noted Springe, which he said would "guarantee revenues, regardless of the amount of natural gas KGS sells. The Commission should reject this proposal."