

Citizens' Utility Ratepayer Board

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HOUSE UTILITIES COMMITTEE H.B. 2806

Testimony on Behalf of the Citizens' Utility Ratepayer Board
By David Springe, Consumer Counsel
February 19, 2008

Chairman Holmes and members of the committee:

Thank you for this opportunity to offer testimony on H.B. 2806. The Citizens' Utility Ratepayer Board is opposed to this bill for the following reasons:

Regulated utility rates are set by the state corporation commission based on the utility's underlying cost of providing service to its customers. Rates for individual classes of customers are a function of the cost allocation parameters specific to the utility. The rates of each utility will differ due to the historic mix of generation resources (coal, nuclear, gas and wind), vintage of the resources (older, depreciated plant versus newer, un-depreciated plant), vintage of the fuel contracts for the resources, the nature of the territory served (rural versus urban) and the load mix and load factor of the customers in general (residential versus industrial). There are many factors that go into rate making that explain the differences in rates between utilities and between customer classes.

CURB has several concerns about how HB 2806 will change the way utility rates are set in Kansas.

First, utility rates will no longer be based on the underlying cost of the utility serving the customer. To achieve the "uniform rate for electrical service" required in HB 2608 certain customers will pay a rate above the level determined by the Commission to be just and reasonable for that utility, while the customers of another utility will pay a rate below the level determined by the commission to be just and reasonable for that utility. Utility customers of one utility will by definition subsidize the customers of another utility. Rates will no longer be based on the mix of resources and other variables that make up the cost of service of the individual utility as discussed above. CURB does not believe this is an appropriate regulatory or legal policy.

Second, the bill appears to include all municipal utility customers and cooperative customers as part of the uniform rate. A majority of these customers are not currently regulated by the commission. Even if it were politically possible to bring these unregulated customers within the jurisdiction of the commission for rate making purposes, the bill requires that "at least every two years the state corporation commission shall conduct an audit of the revenue

requirements of each retail electric supplier the rate of which are not regulated by the commission to determine the validity of the requirements certified to the commission by the governing body of the supplier". This would be an impossible schedule to meet given the number of unregulated entities that would be subject to this audit. Further, unregulated cooperatives and municipal governments may not have been exposed to the current regulatory process, likely don't keep accounting records in a manner consistent with that used in the regulatory process, and are free to include costs in utility rates that might not normally be allowed in utility rates through a commission audit. All of these issues would make the audit process necessary to verify the accuracy of the uniform rate across these entities very difficult.

Third, the bill requires the state corporation commission to establish a method for collecting and redistributing monthly moneys collected by the retail electric suppliers pursuant to the statewide uniform rate. The bill is silent about how this method should be implemented. For example, rates are usually based on some level of fixed customer charge, some level of volumetric charge, some level of fuel charge and then other charges that may recover transmission costs, property taxes, environmental control costs or other miscellaneous charges. Equalizing all of these costs across all utilities will be difficult at best. Consider the fact that each utility has a different fuel cost every month, which will depend on the utility's resource mix, contract mix, market fuel prices, dispatch order, transmission constraints and purchases and sales of power in the market and you start getting the measure of the complexity involved in setting a monthly uniform rate. Setting a rate that is uniform for each customer in the state on a monthly basis, while insuring that each utility receives revenue equal to its revenue requirement and allowed return where appropriate will be a massively complex undertaking and will necessarily require a large regulatory body to administer.

Given the above, CURB does not support this bill. It is true that at any given time one utility's rates to customers may be higher than a neighboring utility's rates. However that does not mean that either utility's rates are inappropriate for its customers given the underlying costs to that utility. Nor does this mean that regulatory scheme envisioned in this bill is an appropriate approach to setting rates in Kansas.