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David Springe, Consumer Counsel
1500 S.W. Arrowhead Road
Topeka, Kansas 66604-4027
Phone: (785) 271-3200
Fax: (785) 271-3116
<http://curb.kansas.gov>

CURB settlement with KGS reduces increase to residential customers by 74%

TOPEKA, KS, October 26, 2012 – David Springe, Consumer Counsel for the Citizens' Utility Ratepayer Board (CURB), announced today that CURB and the Staff of the Kansas Corporation Commission (KCC) had reached a settlement with Kansas Gas Service (KGS) that, if approved by the KCC, will limit the company to a net revenue increase of only \$10 million. Residential customers should see less than a \$2.00 net increase in monthly bills.

KGS asked for a total increase to base rates of \$32 million, all to be collected from residential customers. KGS also proposed shifting \$6.3 million currently paid by commercial and larger business customers to residential bills. Combined, KGS proposed to increase residential bills by \$38.3 million annually by increasing the monthly customer charge to \$19.00. KGS also proposed a Revenue Normalization Adjustment, which would have for the first time in Kansas history granted KGS a guaranteed level of revenue every year. Additionally, KGS proposed that shareholders be granted a 10.75% return on equity (shareholder profit).

The proposed settlement allows KGS a \$28 million increase in annual revenues. However, about \$18 million of the increase is already on customer bills in the form of surcharges for pipeline replacement (GSRS) and property tax increases (ATSR). The net increase customers will see is \$10 million. The residential customer charge will be set at \$15.35 per month with virtually no change in volumetric rates. KGS will be allowed to split its general (business) service class into three separately-sized classes. Based on rate design changes, small commercial customers will see a net increase in monthly customer charges of about \$2.50 and a very slight increase in volumetric rates that on net will cost the average small business about \$5 per year.

KGS has agreed to withdraw its request for the revenue guarantees proposed in the Revenue Normalization Adjustment. For purposes of calculating future surcharges, KGS has agreed to a pre-tax rate of return of 10.6%, which is indicative of an after-tax return on equity range between 8.65% and 10.08% depending on the assumed capital structure. Using CURB's proposed capital structure the indicated return on equity is 9.6%.

"I want to thank KGS and the Staff of the Kansas Corporation Commission for the work necessary to come to this proposed agreement." said David Springe. "While increasing customer rates is always a difficult choice, KGS has made substantial upgrades to its natural gas distribution system, resulting in increased reliability and safety." Springe noted that because the economic slump has led to shrinking revenues from larger commercial and industrial customers, an increase in rates for households and small businesses was inevitable. However, he said "The settlement provides a much better deal for residential customers than the company had proposed." As he described it, "Customers will only see a net increase of \$10 million—a much

smaller increase than the \$38.4 million proposed by the company. The monthly customer charge will go up to \$15.35 a month for residential customers, but that's much better than the \$19.00 charge the company wanted."

"We've been arguing for more reasonable profit levels that reflect today's economy, and we believe that the settlement represents movement towards our target levels," said Springe. "Knocking almost \$30 million off the increase for residential customers, the denial of revenue guarantees, an indicated return that is arguably below 10%, and preventing the shift of costs from large businesses to residential customers: these concessions made by the company made this settlement a pretty good deal for our customers." He added, "We argued against funding lucrative bonuses and benefits for the top executives. Although the agreement is silent on the issue, we believe that the level of the concessions we secured more than offset their impact on rates. "

Springe also noted that natural gas prices in the market are currently very low. "Even with the increases proposed in the settlement, customer heating bills this winter are likely to be more manageable than in years past."

The KCC will hear arguments in favor of the settlement in early November, and if the settlement is approved, the new rates would go into effect sometime after the first of the year. (Reference KCC Docket No: 12-KGSG-835-RTS)

Media Contact:
David Springe, Consumer Counsel
785-271-3200

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