Citizens' Utility Ratepayer Board

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HOUSE UTILITIES COMMITTEE
H.B. 2632

Testimony on Behalf of the Citizens' Utility Ratepayer Board
By David Springe, Consumer Counsel
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Chairman Holmes and members of the committee:

Thank you for this opportunity to offer testimony on H.B. 2632. The Citizens' Utility Ratepayer Board is opposed to this bill for the following reasons:

Currently the Kansas Corporation Commission (KCC) has a docket open on this very issue. Comments were filed this past week by interested parties with reply comments due February 15, 2008. This bill is simply and end-run around the KCC process. The Committee should not act on this bill at this time. Rather the KCC process should be allowed to finish.

While CURB supports increasing the availability of energy conservation and energy efficiency resources, this bill as drafted is bad for consumers. By dictating that "investments in and expenditure for" energy conservation programs shall, at the option of the utility, be included in rate base, this bill eliminates KCC discretion to evaluate the specific facts of an individual case and sets an unprecedented accounting standard. Only long-term capital investments (generation plants, poles, meters, transmission lines) are included in rate base, depreciated over their respective useful lives and allowed a return for shareholders. With few exceptions, day-to-day expenses (advertising, labor) that are not long term capital investments are simply expensed annually as incurred. Expenses are not placed in ratebase and shareholders do not earn a return on expenses.

The majority of expenditures in energy conservation programs are short lived expenses rather than long lived assets. By legislating that these short lived expenditures be given rate base treatment, this bill will have the effect of increasing the long term cost to consumers for utility sponsored energy conservation programs. CURB is at a loss as to why we would encourage this expensive accounting treatment when we can achieve the same level of energy conservation for less cost to consumers with traditional accounting methods.

It might be suggested that this type of accounting treatment is necessary as an incentive for the utility to put energy conservation investments and expenditures on the same footing as investments in traditional generation facilities. More simply, why would a utility that makes its profit by selling energy want to invest money to not sell energy. If the Committee believes that this type of accounting legislation is necessary to put energy conservation investments and expenditures on the same footing with traditional generation facilities, then CURB has two suggestions.

First, if the utilities have an incentive problem then perhaps the utilities are not the right entity to be providing energy conservation and energy efficiency. The Committee should investigate whether there are other more effective and less expensive methods to deliver energy conservation to Kansas consumers. For example, Colorado uses a non-profit entity, Energy Outreach Colorado, to provide both low income energy assistance and energy conservation programs. Utility customers still provide the funding, but the non-profit has only one objective; to provide energy conservation, and so does not have the incentive problem that the utilities claim to have. Also, since the non-profit does not have to pay profits to shareholders, all of the consumer money provided, less some administration expense, goes to providing energy conservation to consumers. The non-profit is also not constrained by pre-set territories like the utilities. Cost effective programs can be offered across different utility territories.

While this model may, or may not work in Kansas, this current legislation by default deems the utilities be the provider of energy conservation in Kansas and creates accounting that will reward shareholders at the consumer's expense. Kansas consumers deserve to know whether there are other ways to provide this service at a lower cost, or that may reach a broader range of customers in a more cost effective manner.

Second, the legislature should also require Integrated Resource Planning (IRP) by utilities. IRP puts energy conservation on the same footing as energy supply option and requires that the utility provide the least cost resource to meet future needs. IRP was considered in Kansas in the early 1990's, but no rules were ever adopted. Without a robust IRP process, we won't truly know whether the energy conservation resources at issue are cost effective, or whether any generation resources are being avoided. Without the IRP process, this bill merely provides an incentive to the utilities spend money on energy conservation and energy efficiency as a new profit center. Results are not guaranteed.

At the end of the day, consumers are interested in having service, whether supply side or energy conservation provided at the lowest reasonable cost. This bill serves only to increase the cost to consumers of providing energy conservation and energy efficiency. CURB does not believe that Kansas consumers want policymakers to pick an approach, as in this bill, that encourages energy conservation in the most expensive way possible. CURB urges the Committee to not pass this bill.

One final note, Kansas City Power and Light is in the middle of a five year $2.5 billion resource expansion plan. KCPL's rates have increased more than 20% in the last two years and two more rate cases are planned in the next two years. Westar Energy reports that it will spend $2.3 billion in capital expenditures alone during 2007-2009. Shareholders will have plenty of long term capital to put in rate base. Consumer rates will most certainly increase substantially to pay for that long term capital as well as to pay for increases in operations, maintenance, administrative and fuel expenses. Energy conservation can help consumers. However, this bill will result in additional unnecessary rate increases.