

M I N U T E S  
PUBLIC UTILITIES COMMITTEE  
Wednesday, January 24, 1968

Meeting was called for 4 p.m. in Room 528 with Chairman Strowig presiding.

Mr. Turner was absent.

Chairman gave the Committee copies of several "housekeeping" amendments relating to HB 1724 that were suggested by the Revisor. (copy attached) These were discussed.

Mr. Griffith said that in not giving extension beyond city limits to small utilities with no comprehensive plan, that it might be burdening them unduly in having to file with the Corporation Commission; that cities with a plan get a three mile extension. He would like to have an amendment to give the small ones a one mile extension and thinks this will take care of many situations and objections.

Mr. Ratner remarked that another item not taken care of is service to the municipals' own facilities outside city limits.

There was discussion of the phrase "municipally owned and operated" which appears several times in the bill. Some members think "or" should be substituted for "and".

Mr. Fatzer said he is thinking of irrigation and its future. Section 5, page 3, exempts 15 miles. He should like to see this reduced to 5 miles.

Mr. Ratner moved, seconded by Mr. Griffith, that amendments as set forth by the Revisor be drafted as Committee amendments. Motion carried.

Chairman appointed a subcommittee, namely: Messrs. Griffith, Brier and Ratner, to study other suggestions and make recommendation.

Mr. Griffith moved that there be embodied in the bill a one mile extension for those without a comprehensive plan. Mr. Lindahl seconded the motion. Mr. Pinet made a substitute motion that this be for a distance of three miles. Latter motion died for lack of a second. On vote, Mr. Griffith's motion carried.

Mr. Fatzer moved an amendment to page 3, line 16, to reduce the 15 miles to 5 miles. Mr. Pinet seconded the motion. On voice vote, motion lost.

Chairman announced next meeting to probably be next Tuesday.

Meeting adjourned.

  
Secretary

MR. SPEAKER:

Your committee on Public Utilities

Recommends that House Bill No. 1724

"AN ACT relating to utilities; prescribing the powers and authority of certain municipally owned utilities; relating to the powers and duties of certain boards of public utilities; defining certain terms; requiring certificates of authority to transact business, and exempting certain utilities therefrom; amending K.S.A. 12-806, 12-808, 12-821, 66-104 and 66-131 and K.S.A. 1967 Supp. 13-1223, and repealing the existing sections, and also repealing K.S.A. 12-807."

Be amended:

On page 1, following line 12, by inserting a new section 3 to read as follows:

"Sec. 3. K. S. A. 12-820 is hereby amended to read as follows:  
12-820. If any part or portion of the plant or property of any person, company or corporation sought to be acquired by any city proceeding under the provisions of this act be located outside the corporate limits and boundaries of said city, the said city may nevertheless, proceed under this act to acquire title to such part or portion of the said plant or property as may be located, and to hold and control the same as the property of the city the same as though it was located within the corporate limits of said city, subject to the provisions of K. S. A. 66-104 and 66-131, as amended.";

And by renumbering sections 3, 4, 5, 6, 7, 8, 9 and 10 as sections 4, 5, 6, 7, 8, 9, 10 and 11, respectively;

On page 4, in line 1, by striking the word "and" and inserting in lieu thereof the word "or"; in line 3 by striking the word "and" and inserting in lieu thereof the word "or"; in line 30 by striking the word "and" and inserting in lieu thereof the word "or";

On page 5, in line 4, by inserting after the figures "12-705" the following: ", subject to the full jurisdiction and control of the corporation commission";

On page 6, by striking all of line 11 and inserting in lieu thereof the following: "Sec. 10. K. S. A. 12-806, 12-807, 12-808, 12-820, 12-821, 66-104 and 66-131 and";

In the title, in line 6, by inserting before the figures "12-821" the following: "12-820,";

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Chairman.



State Corporation Commission

ROBERT B. DOCKING Governor  
WILLIAM L. MITCHELL Chairman  
JAMES O. GREENLEAF Commissioner  
DALE E. SAFFELS Commissioner  
RAYMOND B. HARVEY Secretary  
E. EDWARD JOHNSON Gen. Counsel

TOPEKA, KANSAS 66612

January 30, 1968

The Hon. Calvin A. Strowig, Chairman  
Committee on Public Utilities  
House of Representatives  
State House  
Topeka, Kansas

Dear Representative Strowig:

Certain individuals representing the municipal utilities of this state recently appeared before your committee and according to newspaper reports, charges were made (1) that this Commission during 1964 and in subsequent years permitted the private electric utilities under its jurisdiction to overcharge Kansas customers several million dollars annually, and (2) that municipally-owned electric utilities provide service at less cost than private utilities. The basis for the first charge was the assumption that the reasonable rate of return on the rate base is an arbitrary return of 6% and that anything above this represents an overcharge. As Chairman of this Commission, I believe that such statements are misleading and that they should not be allowed to go unanswered. I refute them as follows:

1. First, it is misleading to assume that 6% is the proper rate of return on the rate base of any one particular utility or for the industry at large. Such a return may well have been a liberal return several years ago for utilities able to attract capital at low costs of money, but all informed persons are aware of the rising interest costs, particularly during the last three or four years. During the late 40's and early 50's financially sound utilities were able to float bond and debenture issues at interest rates of approximately 3 to 3-1/2%. Today the effective cost of debt capital to utilities is roughly double such rates. For example, during November, 1967, two of the nations large electric utilities, Houston Light & Power Company and Florida Power and Light, sold first mortgage bond issues each bearing an annual interest rate of 6-3/4%, and during the same month a number of smaller companies, including St. Joseph Light & Power, issued debt at 7% and/or higher interest costs. During the same month this Commission issued a Certificate authorizing Northern Natural Gas Company to issue \$40,000,000 of funded debt bearing a 6-7/8% interest rate, but because the issue sold at a discount the effective cost of the debt to the company slightly exceeded 7%. These illustrations should demonstrate that utilities generally would be unable to attract new capital at reasonable rates if the regulatory body established an arbitrary rate of 6% on an original cost rate base above which any additional amount is classified as an overcharge to its customers.

2. Second, we believe it to be erroneous to assume that a 6% rate of return is the standard for federal agencies. Recently the Federal Communications Commission found the reasonable rate of return to be within the range of 7 to 7-1/2% for the interstate business of the Bell Telephone system. According to information in our files, it is true that the Federal Power Commission, particularly before the 60's did find a 6% rate of return reasonable in several electric and/or natural gas cases, but subsequent thereto it has found 6-1/4%, 6-1/2% and in some instances even higher returns to be appropriate.

3. Third, the utilities staff of this Commission develops statistics from the annual reports which are filed by the utilities in March and April and subsequent to the end of each calendar year, the staff advises the Commission of the estimated returns. During the years 1964 through 1966 several significant rate reductions were worked out with the utilities as a result of joint conferences with the utility and the Commission and/or its staff. One important factor which made possible the reductions were two reductions in the Federal Income taxes during this period. However, in most instances the revenue adjustments worked out by conferences with the utilities went into effect some time during the year and because they applied to only a portion of the year, the returns of the utilities were shown for such years to be somewhat higher than they would have been had the revenue reductions been in effect for the full calendar year. Three reductions to Kansas Power & Light Company alone during the three years amounted to approximately \$1,800,000, the last reduction in the amount of \$400,000 being made effective in November, 1966, as a result of a formal investigation initiated by the Commission.

4. Fourth, we call to your attention that a very substantial amount of the expenses which must be covered by the revenues of the privately-owned utility is taxes, principally property and income taxes, which municipalities do not pay. To illustrate this, the staff provided me with this summary from the 1966 electric annual reports of the three largest electric utilities operating in Kansas:

	<u>Kansas Power &amp; Light Company</u>		<u>Kansas Gas &amp; Electric Company</u>		<u>Kansas City Power &amp; Light Company</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
(a) Taxes	\$14,328,830	35.4%	\$13,362,433	33.6%	\$25,300,700	36.4%
(b) Depreciation	6,564,638	16.2%	5,393,000	13.6%	9,682,232	13.9%
(c) Maintenance & Operation Expense	19,621,013	48.4%	21,024,051	52.8%	34,515,559	49.7%
(d) Total operating Expense	<u>\$40,514,481</u>	<u>100.0%</u>	<u>\$39,779,484</u>	<u>100.0%</u>	<u>\$69,498,491</u>	<u>100.0%</u>

*rate reductions*

*taxes to privates*

January 30, 1968

Please be assured, Mr. Chairman, that the State Corporation Commission of Kansas and its staff stand ready at any time to assist you and the members of your committee in its important function, and if we have information that would be of assistance to you, please don't hesitate to call on us. We do want to support you in any way that we can.

On behalf of the Commission and its staff, we extend to you and the members of your committee our best regards.

Respectfully yours,



Dale E. Saffels, Chairman

DES:tk

Enclosures

*not rate @ city*

The Hon. Calvin A. Strowig

January 30, 1968

When more than 1/3 of the total operating expense represents taxes, it readily can be imagined how much less the electric bill could be were there little or no taxes. This important factor must always be kept in mind when comparing electric rates of the privately-owned electric utility with municipal rates. We have in our files a copy of the 1966 issue of the Federal Power Commission Typical Electric Bills which shows the residential rates for all cities in United States with populations of 2,500 or more. Residential rates for the three largest cities of Kansas as of January 1, 1966, were:

<u>City</u>	<u>Population</u>	<u>Served by:</u>	<u>250 KWH</u>	<u>500 KWH</u>
Wichita	254,698	K. G. & E.	\$5.25	\$7.75
Topeka	119,484	K. P. & L.	5.78	9.53
Kansas City, Ks.	121,901	Municipal	4.95	7.20

The above appears to indicate that the differential in the electric bill is not significantly greater for the resident of Wichita or Topeka over Kansas City, especially when allowance is made for the fact that taxes comprise a third of the operating expenses of the companies serving Wichita and Topeka.

5. Fifth, in view of the charges leveled at this Commission, the staff has prepared two exhibits which compare the residential electric rates of municipalities throughout the State with cities of comparable size. There are 18 cities with populations of from 2,500 to 5,000 and 12 cities with populations between 5,000 and 20,000 which are served by municipal plants. Except for Kansas City, Kansas, there are no cities with more than 20,000 population served by municipal plants. The results of this study indicate that generally the cities served by utilities under jurisdiction of this Commission, have the lowest rates.

6. Sixth, you will be interested to learn that the above-mentioned F. P. C. publication lists the names of the ten privately-owned companies which have the lowest bills for consumers using 250 KWH per month for cities of this nation having 50,000 or more population. A similar list is shown for cities served municipally. Kansas Gas and Electric ranks third in this list and Kansas Power & Light Company ranks seventh. The Board of Public Utilities of Kansas City, Kansas, ranks sixth on its list. Surely this speaks well for regulation in the State of Kansas.

*lowest rates*