M I N U T E S

SPECIAL COMMITTEE ON ENERGY

September 21-22, 1977
Room 532 - State House

Members Present

Representative Donald E. Mainey, Chairman
Senator Arnold Berman
Senator Bill Morris
Representative August Bogina
Representative Tim Holt
Representative J. Littlejohn
Representative Robert H. Miller
Representative Charles J. Schwartz

Staff Present

Ramon Powers, Kansas Legislative Research Department
Mary Torrence, Revisor of Statutes Office
Ron Smith, Kansas Legislative Research Department
Hank Avila, Kansas Legislative Research Department (September 22)

Conferees Present

Tom Pitner, Kansas Corporation Commission
Paul Johnson, Legal Aid Society of Topeka, Inc.
Diane Tegtmeier, Mid-America Coalition for Energy Alternatives, Shawnee Mission
Art Thompson, Consumer Utility Rights Board, Wichita
Ivan Wyatt, Kansas Farmers Union, McPherson
D. Wayne Zimmerman, Director, Electric Companies Association of Kansas
Arthur Doyle, Kansas City Power and Light Company, Kansas City, Missouri
Ed Schaub, Southwestern Bell Telephone Company, Topeka
Charles Ross, General Manager, Kansas Electric Cooperatives, Topeka
Tom Van Bebber, Commissioner, Kansas Corporation Commission
Professor John Nordin, Department of Economics, Kansas State University, Manhattan
Frank Ross, General Manager, Ross Industries, Department of Cargill, Inc., Wichita
Richard C. Byrd, Gas Service Company and Kansas Natural Gas Company, Ottawa
Ann Bueker, Mid-America Coalition for Energy Alternatives, Shawnee Mission
William Brown, Kansas Power and Light Company, Topeka
William L. Bryant, Vulcan Materials Company, Chemical Division, Wichita
John Gatling, Mid-America, Inc., Parsons
Don Hogue, Alexander Bros. Bakery, Pepsi-Cola, Topeka
Greg Loney, Assistant Manager of Engineering, Goodyear Tire and Rubber Company, Topeka

September 21, 1977
Morning Session

Chairman Mainey called the meeting to order at 9:30 a.m. Committee members were furnished copies of tentative agendas for the meeting on Proposal No. 22 - Construction Work in Progress (CWIP) and copies of the minutes of their August 22-23 meeting.

Chairman Mainey asked Ramon Powers of the Kansas Legislative Research Department to review the memorandum prepared by the Research Department in regard to Proposal No. 22. Mr. Powers presented a brief review of the proposal which included the background of the Construction Work in Progress (CWIP) and Allowance for Funds Used During Construction (AFUDC) issues in utility rate making, and the arguments for and against the inclusion of CWIP in rate base of a utility in setting rates.

In discussion that followed Mr. Power's review, Senator Berman asked if the cost of inclusion of CWIP in utility rate base to Kansas consumers has been calculated. Mr. Powers stated that such a calculation has not been made.

Chairman Mainey then introduced Tom Pitner of the Kansas Corporation Commission (KCC) who briefly explained the status of the pending Kansas City Power and Light Company (KCPL) case concerning CWIP. Mr. Pitner said the Court has the following options in interpreting the statute: (1) it can mandate or require that CWIP be included in rate base; (2) it can leave the inclusion of CWIP to the discretion of KCC; or (3) it can exclude CWIP from the rate base.

Chairman Mainey asked Mr. Pitner if, in rate hearings, utilities have submitted requests including CWIP. Mr. Pitner said requests always state whether CWIP is included or not, and the KCC staff excludes it. During discussion that followed, Bruce Morman of Elmer Fox, Westheimer, Wichita, and Mr. Pitner answered questions of Committee members in regard to calculations and comparisons of consumer costs of the inclusion of CWIP or AFUDC in rate base. It was stated by Mr. Morman that over a thirty year period the cost of CWIP in the rate base is greater if you calculate the cost of money.

Chairman Mainey introduced Paul Johnson of Legal Aid Society of Topeka. Mr. Johnson stated that he had testified before the House Energy and Natural Resources Committee during the 1977 Session opposing the inclusion of CWIP in the utility rate base. He said that the three major Kansas utilities have the highest bond rating (AA) given to electric utilities in this country and therefore do not, in reality, have the problem raising capital which they profess to have. He cautioned members of the Committee that allowing the inclusion of CWIP amounted to a "free gift" for growth at any cost. Mr. Johnson described the utility regulatory system as one where the more utilities spend, the more they profit.

Chairman Mainey then introduced the next conferee, Diane Tegtmeier, who spoke in behalf of Mid-America Coalition for Energy Alternatives. Miss Tegtmeier reminded Committee members that Missourians had voted two to one against CWIP in a statewide vote in November of 1976. She said that citizens do not want to pay on utility construction they may never use. She said that allowing inclusion of CWIP is a step closer to public power and away from "private" utilities. With consumers paying interest expense on construction, Miss Tegtmeier said, incentives are reduced for utility companies to plan capital expenses wisely, worry about cost overruns, or to ever finish new construction. Committee members were furnished copies of Miss Tegtmeier's statement (Attachment I).

When a question was posed about the Missouri vote on CWIP, and whether or not the voters misunderstood the "yes" and "no" meaning of their votes, Miss Tegtmeier said that intensive educational campaigns were directed at the public regarding the issue, and she felt that the vote was an informed vote against having to live in an area thirty years before recovering the investment they would have made in utility billings if CWIP were included in rate bases.

2070(?) Following a short recess Chairman Mainey furnished members of the Committee copies of a letter from State Representative Ruth Luzzati (Attachment 2), copies of H.B. 2270 (Attachment 3), and copies of a letter from Louis Stroup, Jr., Executive Director of Kansas Municipal Utilities, Inc., who could not attend the meeting to give testimony on Proposal No. 20 (Attachment 4).

Chairman Mainey introduced Art Thompson, Consumer Utility Rights Board, Wichita. Mr. Thompson furnished copies of his statement (Attachment 5). Mr. Thompson spoke in opposition to the inclusion of CWIP in the rate base of utilities and reminded members of the Committee of the public opposition evidenced by Missourians voting against CWIP, and of the Federal Power Commission's refusal to grant the request of utilities' inclusion of CWIP. Mr. Thompson pointed out weaknesses in utilities' growth calculations, and the impact conservation and rate reforms may have on growth rates of utilities.

Mr. Thompson stated that inclusion of CWIP will stifle utility companies' motivations toward conservation and less costly energy alternatives. He argued against consumers having to pay for utilities' speculative investments to stockholders' benefit. Mr. Thompson suggested that any CWIP financed power plants should be state-owned and run by private subcontractors but with ownership and any return on monies retained by the people. He also suggested the possibility of selling extra generating capacity produced during the winter to a northern state in return for summer spare capacity from utilities in that region. Mr. Thompson concluded by urging disapproval of the CWIP concept without state control.

Ivan Wyatt was then introduced by Chairman Mainey to present testimony for Kansas Farmers Union. Mr. Wyatt said his organization had supported the intent of H.B. 2070 and still does. He stated that the allowance of CWIP, in reality, would take money from captive consumers and make it an asset of the stockholders of the utility, then make the consumer pay rates which guarantee profit on services created with the consumers money. Mr. Wyatt said allowance of CWIP in rate base defiles the principles of the free enterprise system, and is a "legal extortion" strongly opposed by the Kansas Farmers Union.

Chairman Mainey introduced D. Wayne Zimmerman of Electric Companies Association of Kansas, who in turn introduced the following member representatives of the Association who were in attendance: Jerry Coonrod and Howard Hansen, Kansas Gas and Electric; Herb Hoskins, Central Telephone and Utilities; Myron McKinney and Terry Oliver, Empire District Electric Company; Lon Stanton and Hal Hudson, Kansas Power and Light Company; and Bud Mayberry, Kansas City Power and Light.

Mr. Zimmerman then introduced Arthur Doyle of Kansas City Power and Light Company to present testimony for the Association. Mr. Doyle, in answer to a question raised earlier in the meeting regarding the constitutionality of inclusion of CWIP in rate base, remarked that he feels either inclusion or exclusion of CWIP is permitted as he interprets the statute. He stated that the utilities have never argued that inclusion of CWIP should be mandatory.

Mr. Doyle furnished the Committee with copies of Memorandum on direct testimony, Exhibit Nos. 2, 9, 12 and 22 (in connection with KCPL case), and KCPL Interim Report dated September 9, 1977 (Attachments 6, 7, and 8).

Mr. Doyle told the Committee that, historically, for a utility company, the construction of one generating plant at a time was usual, but that the picture has changed in past years to the point that during a recent year, one Kansas company had five generating plants under construction at the same time. He cited the massive construction and massive cost increases required by new growth demands of new and future customers, and particularly by existing customers. He also pointed out the environmental additions required by utility plants.

Mr. Doyle told Committee members that utilities now find themselves in danger of lower credit standings while in need of huge amounts of capital. He pointed out that he interprets K.S.A. 66-128 to leave discretion in setting rates to the KCC permitting either CWIP or AFUDC.* He said that when it works to the benefit of the public, the KCC should include CWIP.

Mr. Doyle said that 90 percent of the new capacity being constructed is to meet energy demands of existing customers. He directed attention to graphs which showed utilities' large amounts of capitalization not included in rate base and utilities' low rate of return as new plants come on line, as well as the considerable jump in rates necessary at that time. Doyle emphasized that CWIP included in the rate base avoids these dramatic rate increases, allowing rates to rise gradually.

Mr. Doyle was asked during Committee discussion if the utility companies in states which include CWIP in the rate base have higher credit ratings. He said this was not necessarily so because of different factors which contribute to ratings. When asked how many utilities have gone broke during the past year, Mr. Doyle cited one company but said there were a number of utilities in serious financial condition.

Mr. Zimmerman was asked the purpose of Electric Companies Association of Kansas. He related the following purposes of the association: (1) to provide testimony to legislative committees; (2) to provide a source of information; (3) to monitor legislative activity; and (4) to provide public relations. When asked if the association was a "super lobbying" association, Mr. Zimmerman said it was lobbying association, but not "super."

Mr. Doyle was asked what effect five years of inclusion of CWIP would have on rates. He said that a rough estimate would be a 15 to 20 percent increase, but this method would avoid an increase which could be as high as 25 percent when the plant came on line. Mr. Doyle was then asked if KCPL had ever failed to get money in the money markets. He replied that there is money available, but the question is that of high interest rates, and how dearly they must pay for the money. It was noted that the KCPL report showed interest costs at 8.2 percent which did not seem too high.

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* Mr. Doyle also stated that he believes K.S.A. 66-128 should be left as it is.

During discussion that continued regarding the effect of utility rate structures such as inverted structure on energy shortages, Mr. Doyle said that he did not believe that utility companies should dictate public use of electricity by rates. For example, he noted, rates should not be established which would allow air conditioning to be afforded only by the rich. The question of legislative mandate in power consumption was raised and Mr. Doyle argued that the better solution was in load management, conservation, education, and insulation - in general, a change of the public's habits. Doyle also remarked that while this country does have some fuel shortages, there is not basically an electricity shortage, and that research is a better answer to the energy crisis than edicts or mandates.

Chairman Mainey requested that Mr. Doyle continue to respond to questions following a recess, and announced that the Committee would recess for lunch.

Afternoon Session

The Committee reconvened at 1:30 p.m., to resume hearings on Construction Work in Progress. In response to further questioning, Mr. Doyle told Committee members that utilities are always short of their authorized rate of return. He said that they have no choice as far as new construction is concerned because they have to build additional facilities in order to meet present and future power demands. He agreed that rate increase would be difficult to explain to senior citizens or those on fixed incomes.

The question of utilities' responsibility to stockholders, as opposed to their responsibility to consumers, citizens of the state, was raised. The role of public utilities with a guaranteed marketplace and guaranteed rate of return, would imply some responsibility in social and public policy charged one Committee member. Since utilities have a gift from the state in the form of a franchise to do business in the state with a guaranteed market and a fixed rate of return, they have a responsibility to the public, the Committee member insisted.

Mr. Zimmerman was asked how much electricity generated in Kansas was sold outside the State, or how much was used in Kansas and generated in other states. Mr. Zimmerman said he did not have those figures, but would supply them later for the Committee.

Mr. Zimmerman was also asked why Mr. Doyle, of KCPL had been chosen to present testimony for the association, since KCPL was located in a highly urban area and served primarily Missouri customers and perhaps was dissimilar to most Kansas companies. In reply, Mr. Zimmerman said that the association wished to save the time of the Committee by having one speaker represent the members and they felt that KCPL was similar enough to other Kansas utilities, as well as Mr. Doyle being familiar with the CWIP court case.

Discussion turned to the problem of the poor being able to absorb rate increases if CWIP was included in the rate base. Mr. Doyle said he felt the government is responsible for social problems such as persons who cannot afford food or utility bills.

Diane Tegtmeier then requested permission to make a brief statement in addition to her earlier testimony. She stated that she had heard many arguments pro and con from each side of the CWIP issue, and that she has heard many conflicting comments made by KCPL representatives which are of record. Miss Tegtmeier pointed out that before the Nuclear Regulatory Commission and regarding the building of Wolf Creek, KCPL representatives said that their company did not need the inclusion of CWIP; yet, before other agencies the same company's representatives have stated there is great need for the inclusion of CWIP. Chairman Mainey requested that Miss Tegtmeier furnish these transcripts. Mr. Doyle stated he would like to supply transcripts also.

Chairman Mainey then introduced Ed Schaub of Southwestern Bell Telephone Company. Mr. Schaub furnished Committee members with memorandums on telephone plant under construction (Attachment 9). Mr. Schaub reported that the KCC has treated telephone companies like electric companies, and have been denied the inclusion of CWIP in the rate base in accordance with the KCC's interpretation of K.S.A. 66-128. Mr. Schaub reported his companies construction expenditures for 1976 at $102 million, and projected construction expenditures by 1981 at $200 million. He said that in Southwestern Bell's current rate case, the Company requested consideration of inclusion of CWIP, but the Company did not compute CWIP in revenue requirements because of the pending court appeal of KCPL.

Mr. Schaub emphasized Southwestern Bell's goal of rendering good service at the present time and in the future. Since all borrowed funds are used almost entirely for CWIP, and without CWIP included in the rate base, investors cannot receive a fair return while plants are under construction, Schaub said. After reviewing the reasons for concern regarding the need for inclusion of CWIP in the rate base, Mr. Schaub recommended that the Legislature not close the door on CWIP, because it can be one solution of continued upgrading and improving of telephone service many years down the line.

Following his presentation, Mr. Schaub was asked how many Topekans have phone service. He said that 96 percent of the population of the United States have phone service, and that this figure would be close for Topeka. Mr. Schaub was also asked what the amount of interest costs in regard to CWIP would be for a company like Southwestern Bell. Since their construction costs in 1967 were well over $33 million, Schaub said, figured at 8% interest, the interest figure would have been well over $2½ million. He added that the projected construction costs for 1981 are approximately $200 million.

Chairman Mainey then introduced Charles Ross, General Manager of the Kansas Rural Electric Cooperatives (REC's). Committee members were furnished copies of Mr. Ross' statement (Attachment 10).

Mr. Ross stated that his association included 37 rural electric public utilities, each owned by its' consumers, and serving totally 450,000 Kansans. Consequently, the rural electric cooperatives have a great interest in how the problem of CWIP is handled. He said that his association believes any action on CWIP by the Legislature is premature until the Supreme Court has considered the pending case in connection with the matter.

Mr. Ross said that the FPC has never allowed inclusion of CWIP in the rate base for electric power sales with the one exception of its' inclusion for pollution control equipment. He said his association has always opposed the FPC's allowing electric utilities' inclusion of CWIP for wholesale power sales with these costs to be passed on to Kansas REC's unless KCC also permitted pass-on of CWIP costs to their retail consumers.

Mr. Ross reported that financing new electrical projects in Kansas has become a problem for investor-owned companies. However, he insisted, these companies have not accepted joint financing from Kansas REC's, who are on record as willing to finance proportionate shares of financing facilities needed to serve REC consumers. Such joint financing, already used in some states, is being negotiated at this time by REC's with KGE and KCPL for a share of the Wolf Creek Nuclear Plant, Mr. Ross said. He proposed that the potential of joint financing might be mandated by the KCC before CWIP is included in the rate base.

In conclusion, Mr. Ross urged legislators (1) to see that Kansas public utilities and Kansas REC's coordinate planning and financing in providing future electric facilities; (2) take no action on CWIP until the Supreme Court has rendered its' decision on the legality of the KCC's authority in the matter; (3) to insure that Kansas regulations are comparable to Federal Power Commission's regulations; and (4) to review statutes requiring CWIP to be assessed for ad valorem taxes while CWIP is not allowed in the rate base and revenue earning for REC's and electric companies in Kansas; and (5) to give the KCC sole jurisdiction in all rate making procedures, if any action is taken regarding CWIP.

It was noted during brief discussion following Mr. Ross' statement that there is disagreement regarding waiting longer for action on CWIP for the Supreme Court's decision, since many feel action is long overdue already.

Chairman Mainey introduced the next conferee, William L. Bryant. Mr. Bryant furnished Committee members with copies of his statement (Attachment 11). Mr. Bryant stated that he represented Vulcan Materials Company and that their Wichita plant is the largest chemical plant in Kansas, the largest electric power consumer in Kansas, and a large consumer of natural gas. He said that since the largest component of his company's manufacturing cost is energy cost, Vulcan is vitally concerned with any decisions regarding CWIP.

Mr. Bryant said that Vulcan opposes inclusion of CWIP in the rate base for the following reasons:

(1) Kansas utilities can capitalize AFUDC and recover capital costs of property so that rate payers do not avoid payment of financing costs;

(2) Today's rate payers should not be forced to pay for future customers' services and most construction today is for service of future customers' requirements;

(3) The costs to rate payers of CWIP included in the rate base are higher than to exclude CWIP and future increasing customers and usage will mitigate such costs; and,

(4) Making ratepayers responsible for both construction and operation of utilities shifts the risk from stockholders to ratepayers.

Mr. Bryant said that public utilities are already regulated monopolies with guaranteed returns on investment. Allowance of CWIP removes incentives for utilities to construct only what is actually needed to control construction costs, and to ensure projects are expeditiously completed at a time of unprecedented massive construction, Bryant said.

Chairman Mainey thanked all conferees for their presentations. The Chairman then stated that he believed that the Committee had the following options at this time in connection with Construction Work in Progress, to do nothing to draft new legislation in connection with CWIP to support H.B. 2070, or, to oppose H.B. 2070.

Before opening the question of CWIP up for Committee discussion, the Chairman directed the Committee's attention to pending matters. The Chairman announced that a request for approval of the extra meetings planned for the Committee in November had been sent to the Legislative Coordinating Council.

Chairman Mainey then asked the Committee to consider the Memorandum with attached drafts of Proposed Bill Nos. 1631, 1632, 1633, and 1635, and the copy of a Missouri law establishing motor vehicle registration fees based on horsepower, as prepared by the Revisor of Statutes' Office (Attachment 12).

Representative Miller made a motion that the Proposed Bill No. 1631, regarding flexible hours for State employees, be introduced by the Committee. Representative Schwartz seconded the motion. Senator Morris asked if flexible work hours would be practical if mass transportation were implemented. It was noted that Topeka Transit Authority representatives had testified that flexible work hours would be helpful for those who wanted to use mass transportation in Topeka. Representative Miller suggested that State employees who live close together, but do not now have the same work hours, want flexible work hours, but that State department heads do not want to bother with it, and that schedules should be determined by department supervisors.

Representative Holt made a substitute motion that Paragraph (b) be omitted from the bill and that the bill be introduced by the Committee. Representative Miller seconded the substitute motion. Senator Morris stated that he opposed legislation which could be accomplished by other governmental means. The motion was voted upon and passed, with all voting in favor except Senator Morris.

Chairman Mainey requested that the Committee specify whether the bill should be sent to the House or the Senate. At Representative Miller's suggestion, members agreed to postpone designations until the Committee had made all its recommendations of bills.

Representative Miller then made a motion that Proposed Bill No. 1632 relating to income tax incentives for the installation of heat pumps, be introduced by the Committee. Senator Morris seconded the motion.

Representative Bogina questioned if the definition of "heat pump" was definitive enough. Mary Torrence, of the Revisor's Office, stated that the definition used was one proposed by Professor Tom Dean of Kansas University. She added that Professor Dean had recommended a much larger tax credit because of the high costs of such equipment. Senator Morris commented that these prices will probably become lower and that he opposed raising the proposed schedule.

The motion was voted upon and passed.

Representative Miller made a motion that the Committee introduce Proposed Bill No. 1633, relating to placing all state vehicles under the State Motor Pool with the exception of specially equipped vehicles. The motion was seconded. Discussion followed regarding certain problems which might arise in the case of Fish and Game vehicles or other specially equipped vehicles. Senator Berman reminded the Committee that the Secretary of Administration had said that the purchase of vehicles could mean great savings in purchase costs and as much as two million gallons of gas difference annually. He said that the State has the responsibility to take leadership in energy conservation and that this kind of legislation would be a step in the right direction.

Senator Berman made a substitute motion that the bill be amended to include 80 percent of the purchases of new vehicles after January 1, 1979 being sub-compact models. The motion was seconded. Representative Miller suggested that the bill's definition of truck should be changed to a lower weight. Senator Berman added that instead of identifying the 80 percent as sub-compact; rather the 80 percent of motor vehicles should meet the standard of 33 miles per gallon for highway performance and 24 miles per gallon for city performance. It was also noted that the language "except governor" should be deleted from the draft so as to include any vehicles under the Governor's office in the Motor Pool.

The motion was voted upon, with all members voting favorably except Representative Bogina, who opposed the motion.

Representative Miller then made a motion that the Committee introduce Proposed Bill No. 1635 in two separate bills. The Chairman suggested considering the two issues separately and asked Mary Torrence to explain the bill. Miss Torrence said that the bill would implement the KCC order establishing a minimum heat loss standard for all new construction. She noted that the bill she drafted did not specify the fine to be imposed and Committee members should recommend what penalty should be specified. Discussion followed regarding the exclusion of buildings owned or leased by the federal government.

Representative Bogina made a substitute motion that the full language of the KCC order be added to the bill relating to new construction, including reference to storm windows and storm doors and the energy efficiency ratio for air conditioning. Representative Miller suggested the motion be amended to read "class C" misdemeanor, and language of the KCC order be added.

The motion was voted upon and carried.

Chairman Mainey requested that the staff draft legislation covering Section 3, existing structures, which was to be deleted from Proposed Bill No. 1635, so that the Committee might consider it during its October meeting.

In response to questions raised in previous meetings, Ramon Powers, reported that KCC does not believe that it has authority to prohibit gas pilot lights or decorative lamps. He also reported that there are no regulations on re-sale standards of the Pearce-Highland Park Homes, except when required by FHA or VA loans on re-sales. Mr. Powers and Miss Torrence reported on their visit at the Motor Vehicle Registration Division of the Department of Revenue, seeking information on Senator Berman's request for a sliding scale for vehicle registration fees to be determined by vehicle horsepower and vehicle weight. Mr. Powers reported that the Department has indicated that mixing horsepower and weight has many problems. Staff suggested using the EPA gas mileage for vehicles as the basis for registration fees. A problem exists for all older models for which EPA mileage data is not available. Senator Berman said that he did not want tax increases, but to encourage people to use gas-efficient cars to effect energy conservation. He added that the answer may be some form of resolution. It was suggested that a resolution be drafted directing the Director of Revenue to formulate some plan in time for the 1978 Session. Discussion followed concerning whether the price of gasoline and utilities will effect reductions in use. Representative Bogina expressed doubt that an additional $10 on the registration fees will affect decisions as to whether people buy Cadillacs or Chevrolets.

Mr. Powers also reported, in response to another previous question from the Committee, that there were four state parking lots for which permits are sold for parking. They are all filled to capacity with vehicles for which permits are issued and State vehicles. There are a total of approximately 1,650 vehicles parked on these lots. It was requested that Mr. Powers secure the square footage of the parking lots.

The consideration of legislation prohibiting gas lights was suggested by Representative Holt. After brief discussion, it was requested that the staff supply information on gas lamp efficiency ratings and the KCC's authority in the area.

Senator Morris raised the subject of Proposal No. 22, CWIP, and said it might be best not to take action, so that the KCC is not prohibited from considering the inclusion of CWIP in the rate base. Discussion followed regarding the problem of utilities' endless rate applications to the KCC. Representative Holt stated he would like to see Committee action in regard to CWIP. Representaive Bogina suggested drafting legislation giving more direction and clarification for the KCC, and added that it is possible that cases may arise when the KCC will want to include CWIP.

The possibility of changing the wording of H.B. 2070 from "shall" to "may" was discussed, and whether this change would satisfy the courts, yet leave discretion to KCC. Chairman Mainey said that legislation should be worded so that utilities cannot take the cases to court each time.

Senator Berman stated that if CWIP is included, a 15 percent rate increase in residential utility bills can be expected across the state as against perhaps a larger increase in five to ten years. After further discussion, it was agreed that it would be helpful to have Commissioner Van Bebber present for further discussion before the Committee takes action and staff was asked to contact Commissioner Van Bebber in regard to appearing the following morning. Representative Schwartz requested that if action on CWIP was to be taken, it be taken during the morning session, or at the November meeting.

Chairman Mainey announced that the Agenda would be revised the following day to include time for discussion with Commissioner Van Bebber and for any action the Committee wished to take regarding CWIP. The meeting was recessed for the day.

September 22, 1977

Chairman Mainey called the meeting to order at 9:00 a.m. Senator Morris moved that the minutes of the August 22-23 meeting be approved and his motion was seconded by Representative Schwartz. The minutes were approved.

Chairman Mainey stated the Committee would resume its previous day's discussion in regard to CWIP before taking action on the matter. The Chairman then introduced Commissioner Tom Van Bebber of the Kansas Corporation Commission.

The Commissioner, in response to Committee members questions, stated that he would have to decline commenting on the matter since he felt his comments would be inappropriate at this time. Representative Holt asked if changing the wording of H.B. 2070 from "shall" to "may" would be a way to avoid cases going to court. The Commissioner stated that in that case, the issue would then become -- had the Commission been arbitrary in its decision? He said that any court then could find that the Commission had been arbitrary or capricious.

Senator Morris commented that the Committee wished to do the best thing for all people concerned, and asked if it would be best to allow the Commission discretion since perhaps in the future, the Commission may want to include CWIP in the rate base. Commissioner Van Bebber stated that the Commission has generally declined giving the Committee direction in the matter.

After further brief discussion, Chairman Mainey thanked the Commissioner for appearing before the Committee.

Senator Berman summarized his interpretation of testimony on CWIP as follows: With inclusion of CWIP in rate base, we will experience a 15 percent increase in residential utility costs. Excluding CWIP in rate base, utilities testify that we can expect catastrophic increases in rates several years down the line. The KCC does not foresee this occurring and says that, in the long run, it will be cheaper to exclude CWIP. Senator Berman then made the motion that the staff draft a bill specifically prohibiting the inclusion of CWIP for rate making purposes. The motion was seconded by Representative Holt.

Senator Morris asked if the change from "may" to "shall" in H.B. 2070 would not be the better way to handle the matter. Senator Berman expressed the opinion that this would be a "breeder" of rate cases. Senator Morris stated he would oppose the motion since he felt the Committee should wait for the Court's decision in the pending case. Representative Holt expressed the opinion that the Committee should not wait on the Court. The motion was voted upon and passed. A show of hands was requested on the motion. Senator Berman, Representatives Miller, Schwartz, Holt and Chairman Mainey voted favorably, and Senator Morris, and Representatives Bogina and Littlejohn voted in opposition to the motion.

Chairman Mainey then asked Ramon Powers to review Proposal No. 20 - Rate Making Principles and Rate Structures - for the Committee.

Mr. Powers briefly reviewed the bills and resolutions which concerned utility rates that were considered during the 1977 Session. His review included descriptions of the following alternative rate structures and price systems; inverted rates, peak-load pricing (seasonal rates and time-of-day rates), life-line rates or energy stamps for relief of the poor or elderly, CED (customer-energy-demand) rates, and marginal cost pricing.

Senator Berman furnished Committee members with copies of a bill (No. 1640), which would prohibit utilities from including in their rate base the expenses of a rate case (Attachment 13). Senator Berman explained that the bill addresses the items which would be allowable business expenses of public utilities in determining rates, and would categorize and add additional items which would not be allowable, expenses incurred in applications for rate increases as well as KCC expenses incurred in the investigation of these cases, as an effort to avoid ratepayers paying these expenses.

Chairman Mainey then introduced Tom Pitner to present testimony for KCC on Proposal No. 20. Mr. Pitner reported on progress made by the KCC on the study directed by the Legislature in H.C.R. 5031. Mr. Pitner said that KCC has been hampered in this study because it was not appropriated expenses for staff or outside consultants. Consequently, they have had to impose on the staff's normal work-load. The staff has, however, done research and reading during the past summer and has requested rate design information from the utilities, he said. Mr. Pitner stated that the report should be finalized and sent to the Legislature within a few months. In answer to a Committee member's question regarding members of the KCC staff expressing opposition to inverted structures, Mr. Pitner said that the report will set forth the pros and cons of all structures. Representative Miller remarked that H.C.R. 5031 was passed by substantial vote of the Legislature and directed KCC to report not only "findings" but "recommendations." Representative Miller explained that the intent of the resolution was to secure recommedations for legislation in this area. Mr. Pitner said that his office does not have the expertise needed within the department at this time, and that the Commission had not directed them to make recommendations.

Chairman Mainey stated that he understood that the KCC staff member (Fred Adams) believed that inverted rate structures do not reflect the costs of doing business and created the problem of reducing consumption during off-peak hours. After further discussion, Chairman Mainey stated that he felt the Commission needed guidance as to how far they should go, and requested that Representative Miller talk to the Commissioners as to how they should proceed.

The Chairman introduced the next conferee, Professor John A. Nordin, Department of Economics, Kansas State University. Professor Nordin argued that Kansans can save energy by making the price of electricity lower during off-peak times and higher during peak times of the day. Professor Nordin's "time-of-use" concept includes customers having metering devices in residences or businesses which, by remote control, will show consumers which price rate schedule is in effect, and power used during these schedules would be recorded and priced accordingly. Professor Nordin said that this method of pricing will motivate consumers to reduce their total use of electricity and shift some use from higher cost periods to low-cost periods. Prices would be determined, Professor Nordin explained, to (1) make collections equal cost plus allowable return, and (2) divide annual capital cost of generators between groups of customers who use them in the two periods. Rates would be determined fairly by the KCC. Professor Nordin stated that this system would motivate consumers to conserve energy and would avoid discrimination among classes of customers.

Professor Nordin said that current demand rate charges do not motivate customers to save energy since it does not base kilowatthour price on cost conditions when it is produced. He also stressed that time-of-use pricing would mean significant savings for customers and a great contribution to the conservation of energy. Professor Nordin furnished members of the Committee with copies of his statement (Attachment 14).

Professor Nordin was asked if time-of-use pricing concept would eliminate declining block structure, and he said that was true. It was noted that the high cost periods of time-of-use schedules would have strongly inverted rates.

Chairman Mainey thanked Professor Nordin for his testimony and announced a short recess for the Committee. Following the recess, Chairman Mainey announced an agenda revision, with Edwin C. Warren to present testimony during the afternoon meeting. The Chairman then introduced Frank G. Ross. Mr. Ross stated that he was General Manager of Ross Industries, Department of Cargill, Inc., Wichita, and President of Wichita Area Chamber of Commerce. He said that he appeared representing both Ross Industries and the Wichita Area Chamber of Commerce.

Mr. Ross said he was astounded that the Kansas Legislature was even considering inverted rate structures, since such a system would not encourage conservation, but would rather transfer energy consumption to other states, and would be to the detriment of low income customers. He emphasized that it would be extremely hard on industry, small business, and rural consumers.

Mr. Ross said that industries have strong incentives already to conserve energy and are already mandated to do so under federal regulations. Imposing inverted rates on Kansas producers, manufacturers, or agribusinesses which are not imposed on other states will lessen their ability to compete with businesses of other states, Mr. Ross stated. In conclusion, Mr. Ross asked legislators to drop further consideration of inverted rate schedules. A copy of Mr. Ross' statement was furnished Committee members (Attachment 15). During a short discussion following Mr. Ross' statement, Ross said his plant operates a 24-hour production, and that energy costs are becoming a real cost factor.

Chairman Mainey then introduced the next conferee, Jack Byrd. Mr. Byrd said he represented Gas Service Company, Kansas Natural Gas Company, and several other clients. Mr. Byrd described one of his clients' problem areas as being that of time lag between the filing of cases and decisions, in the present inflationary periods, caused in part by the large number of rate cases delaying investigations. He told Committee members that many states allow new rates to be effective when the case is filed with bond put up for refunds in the event rates applied for are not granted. Mr. Byrd said that the problems discussed by the Committee today were more applicable to electrical utilities than to the gas utilities, but that if the gas companies can assist the Committee in any way, they would be pleased to do so.

In answer to questioning, Mr. Byrd said that unfavorable restrictions and rates could result in gas going to Missouri. When asked if his companies favor rate structure changes and oppose allocations, Byrd said that gas companies are not opposed to allocations but want the highest use of gas to be residential consumption, particularly since it is easier for industries to change power sources.

Mr. Byrd was asked if gas would go to supply other states if legislation prohibited new gas connections in Kansas in order to lengthen present Kansas consumer's use. He said that any other states which did not have the same restrictions could get the gas since pipelines will serve wherever they can sell.

Discussion turned to whether gas was being kept in the ground in anticipation of higher gas prices. Mr. Byrd said this was generally not true because of the money invested - there is very little "shut in" gas, as a matter of economics. However, he said, the uncertainty of gas prices has possibly caused some delays in bringing wells into production.

Representative Miller commented on seeing drilling rigs moving around his home county (Sumner County) recently where there had been no drilling for a number of years previously. Mr. Byrd said that there have been many areas of gas which were not economically practical for production, but with present higher prices, operators can afford to produce now. Mr. Byrd also told Committee members that there is enough gas in this country to last to the year 2000 and much gas exists in Kansas. Chairman Mainey thanked Mr. Byrd for his testimony.

The Chairman then introduced former State Representative John Bower. Mr. Bower said he had asked to appear before the Committee because of his longstanding interest in energy and especially in utility rate structures. He stated that he strongly opposed inverted rate structures, but was not opposed to some kind of peak-load pricing. Mr. Bower stressed the hardships inverted structures would work on industries, farm families, and Kansas' general economy. He emphasized that mandating inverted rate structures would be a misuse of state authority. Mr. Bower commended the KCC for doing a good job, and advocated leaving authority in the matter of rates to the Commission. (Copies of Mr. Bower's statement were furnished the Committee (Attachment 16). Chairman Mainey thanked Mr. Bower for his remarks, and announced that the Committee would recess for lunch.

Afternoon Session

The Committee reconvened at 1:30 p.m. for continuation of hearings on Proposal No. 20. Chairman Mainey introduced Edwin C. Warren, of Black and Veatch Consulting Engineers, Kansas City, Missouri.

Mr. Warren briefly reviewed his background and professional experience in electric utility ratemaking with Black and Veatch, which included being engaged by utility systems in a number of states to study and design rate structures. Mr. Warren then explained the historical rate forms; declining block, two-part demand, voltage discount, interruptable, and off-peak schedules. The general intent of historical rate structure has been neither to encourage nor discourage use of power, but to provide service for customers at a fair price, Mr. Warren said. Mr. Warren then discussed rate reforms being considered in recent years because of the energy shortage and the effects of inflation.

In discussing inverted rates, Mr. Warren stated that the effect is to transfer cash burden to large users while benefiting small consumers. This plan, he said, will impact heavily on industries or force large consumers to alternate electric energy sources. In describing flat rate, Mr. Warren said that he finds valid reasons for differences in price structure since industrial customers use service at more uniform rates and do not require the peaking facilities that residential consumers require. Life line rates, directed at economic relief to the poor, bring up the problem of utility companies' method of cost recovery through other means, Mr. Warren said. He stated he personally believes utilities are not equipped to administer welfare, and this is the responsibility which should be borne by public agencies with energy stamp plans. Mr. Warren furnished members of the Committee copies of his statement (Attachment 17).

In discussion following Mr. Warren's presentation, he said that his firm, in connection with recent considerations of rate structures, has suggested the subdividing of residential classes (since large residential users produce higher peaking loads than small consumers) and rate structures for each class of customers. When asked if individual meters are practical at this time, Mr. Warren said he believed not -- though he did agree that consumers ought to be aware of peak periods.

The question of utilities being creatures of the State and their being used for desirable social goals, Mr. Warren stated that utilities were businesses, providing jobs and offering service. Warren reminded legislators of Little Rock, where the public voted to use life-line rates which have now been ruled unconstitutional by the courts. Chairman Mainey thanked Mr. Warren for his appearance.

Paul Johnson of the Legal Aid Society of Topeka was then introduced by Chairman Mainey. Mr. Johnson furnished Committee members copies of his statement (Attachment 18). Mr. Johnson stated that the energy crisis presents Kansas legislators opportunity for remaking rules for Kansas energy production and distribution. He argued that further expansion of new utility plants to meet peak loads is where consumers have some control of costs -- with their ability to shift peak loads to off-peak times. Mr. Johnson also advocated using and improving existing utility plants to fullest extent.

Mr. Johnson stated that he favored time-of-day pricing as the first step to be taken as a rate revision and he pointed out that 31 states have either adopted or are seriously studying time-of-day pricing. He advocated interruptable rates for industrial and commercial users. Mr. Johnson also suggested that the KCC should study power pooling arrangements to improve utilities' load factors pointing out, for example, that Kansas as a summer peaking state and Minnesota as a winter peaking state, could share power and improve load factors. Mr. Johnson also advocated higher rates of return for utilities as their load factors improved, rather than encourage them to build more power plants. Finally, Mr. Johnson asked that legislators take action in the area of rate reform to effectively deal with the energy situation.

Following Mr. Johnson's statement Committee members briefly discussed the question of installation of residential meters for peak-load pricing, and if consumers could afford meters. Mr. Johnson said that he felt large industrial and perhaps commercial consumers should install meters, and rates should be programmed for smaller consumers.

Chairman Mainey then introduced the next conferee, Ann Bueker. Miss Bueker stated that her statement would be repetitious of other testimony heard by the Committee, and she would not take additional Committee time. She did request that, before Committee action is taken, the Committee hear testimony from someone from Missouri. She recommended that the Committee make an effort to get Mike Verin, staff economist of the Missouri Public Service Commission, to discuss what has happended in Missouri.

Chairman Mainey introduced Art Thompson, representing Consumer Utility Right Board of Wichita. Mr. Thompson furnished copies of his statement (Attachment 19). Mr. Thompson stated that his Board supports the concept that rates should reflect costs of providing service to each particular class of consumers, and it opposes declining block rates unless utilities can show they are cost justified. They also support peak-load pricing, marginal cost pricing with the extra revenues received by utilities being used toward life-line rates.

The Chairman then introduced Wayne Zimmerman of Electric Companies Association of Kansas who, in turn, introduced the Association's spokesman, William E. Brown, Manager of Rates of Kansas Power and Light Company. Mr. Brown emphasized that utility rates should be based on cost of service. He suggested that legislation be delayed on rate structures for the results of a comprehensive study being completed by the industry, which would be published by the end of this year. Mr. Brown submitted to the Committee news articles from Florida where inverted rates have been instituted (Attachment 20).

In Committee discussion with Mr. Brown, he was asked if the cost of rate hearings including the KCC investigation costs involved, can be considered "necessary expenses" relating to customer service. Mr. Brown said that these costs were absolutely necessary. He stated that utilities are having problems attracting capital and they must be able to charge investigation costs as a necessary expense in order to properly serve customers.

When asked the approximate cost of rate cases, Mr. Brown said that the cost of a 1976 case was approximately $180,000, including the costs assessed by KCC. The question was posed as to whether the number of cases that can be filed was limited. Mr. Brown said there was no limit on the number that can be filed but that many unrecoverable costs -- such as time, work, disruption of normal activity -- work as disincentives to the utility companies in the instigation of cases.

Mr. Brown was also questioned as to the ratio of "below the line" (company expenses) compared to "above the line" expenses allowed for his company. Mr. Brown said that "below line" expenses amount to less than 5 percent. When it was noted that legislators might be more sympathetic if they did not feel utilities' disconnection policy for unpaid bills of the poor and needy in the middle of winter was callous, Mr. Brown reported on KP&L's effective customer service program. He explained that it is sometimes difficult, however, to distinguish between those who do not pay bills and those who cannot pay bills.

When asked if KP&L objected to legislative action in the area of rate changes which amount to social policy, Mr. Brown suggested that the KCC has been doing a good job in this area. He cited KCC's actions in areas of conservation, fuel adjustment changes, and rate increases. Mr. Brown emphasized that the KCC has been most responsive in representing consumer interests. When questioned as to whether the utility companies approved an energy stamp program for the poor, Mr. Brown answered that he believed they did. When the question of industry's position on a severance tax on oil and gas was raised, Mr. Brown said that he did not know of its position.

Chairman Mainey then introduced Charles Ross, General Manager of Kansas Electric Cooperatives. Copies of Mr. Ross' statement was furnished for Committee members (Attachment 21). Mr. Ross stated that Kansas REC's believe that jurisdiction over rate structures should be left to the discretion of KCC which has been a most workable and fair practice. He expressed concern regarding legislation requiring implementation of any particular type of rate structure which might benefit one class of people and have an adverse effect on another class. Rates regulated to meet specific needs which can be changed with changing conditions by KCC is a better answer to rate problems than legislation, Mr. Ross said. Mr. Ross stated that Kansas REC's support the concept of an adequate technical staff to increase KCC's expertise and efficiency. Ross commended the KCC's recent insulation standards order.

Mr. Ross told the Committee that inverted rate structures would be very hard on the agricultural sector of Kansas since electricity has become an effective tool in production of food and fiber. He reminded the Committee that the agricultural economy is already depressed and inverted rate structures would place additional hardships on farmers and ranchers. Mr. Ross reported that programs of Kansas REC's to reduce peak loads by voluntary load management have worked well. One load management program requiring that irrigation systems be shut off when temperatures reach 90 degrees and air conditioners are being used, has resulted in 90 percent of the irrigators contacted, voluntarily participating this past summer, Ross said.

Mr. Ross reported on life-line rates which have not produced results where such rates have been tried. Recent studies of the use of life-line rates show that low income families are not helped by this program, he said. He suggested that state social agencies handle the problem of high electric costs for poor and elderly groups.

Chairman Mainey introduced William L. Bryant, representing Vulcan Material Company, Chemicals, Division. Mr. Bryant said his company is vitally concerned with electric rate structures, being the state's largest consumer of electricity, and with electric power the largest component of the company's manufacuting cost.

Mr. Bryant discussed traditional electric rate structures and industrial rates. He explained that industrial users are desirable consumers for electric utilities providing a good load base, increasing the system load factor, and being the most efficient users of the system. The costs to provide service for large industry users are much lower than providing service to residential users, Mr. Bryant said; therefore, industrial rates should be lower than residential rates.

Mr. Bryant discussed arguments for and against the alternative rate reforms of inverted rates, life-line rates, and flat rates. He stated that these proposals all have one common deficiency -- that of ignoring economic realities. In conclusion, Mr. Bryant emphasized, departure from cost-of-service methods will result in industrial rates which will adversely affect the economic and industrial welfare of Kansas and Kansans. He said that rates discriminatory to industry will determine industries' expansion and existence in Kansas, because they must locate where costs are lowest to remain competitive. Mr. Bryant furnished Committee members with copies of his statement (Attachment 22).

Following his presentation, Mr. Bryant told the Committee that because of high costs of power in New Jersey, his company had moved out and located in another state to operate more economically. When asked what Vulcan's energy cost component amounted to, Mr. Bryant estimated it to be 60 percent. He added that his company's staff includes energy conservation specialists. In answer to questioning, Mr. Bryant said Vulcan was denied interruptable rates by KG&E.

The Chairman then introduced John Gatling, representing Mid-America, Inc., of Parsons, Kansas. Mr. Gatling, stated that Mid-America, Inc., is a non-profit economic development organization serving a ten county, 6,000 square-mile-area in southeast Kansas. Effort of the organization is directed toward increasing the per capita income of its area through the attraction of new industry, and the expansion of existing payrolls. Mr. Gatling voiced his organization's strong opposition to inverted rate schedules, and said that this rate concept would result in higher costs for all and would be highly discriminatory to industry. Energy availability and costs are of prime consideration to planners of industrial location factors, and inverted rate schedules would close the doors of Kansas to any new capital investments and job opportunities, Mr. Gatling said. He cited Tennessee's TVA's growing generating capacity and low rates as an attractive location for industrial competitors.

Mr. Gatling stressed that southeast Kansas has not benefited by the economic boom, and increases in costs of rate inversion would work hardships on the industries in that area, most of which are small companies and unable to absorb higher costs of doing business. Finally, Mr. Gatling said, adoption of inverted rates would result in the demise of numerous marginal operations across the state and the loss of employment opportunities throughout the state. Mr. Gatling submitted a copy of his remarks to the Committee (Attachment 23).

Chairman Mainey then introduced Don Hogue, owner of the Alexander Bakery and Pepsi-Cola Company, Topeka. Mr. Hogue told Committee members that in changing from central meters to tenants' paying their own utility bills, a 30 percent decrease in utility bills had resulted between April 1 and May 1 this year. Mr. Hogue argued against inverted rates which he believes would do much harm to the small businesses.

The Chairman then introduced Greg Loney, Assistant Manager of Engineering, Goodyear Tire and Rubber Company. Mr. Loney furnished copies of his statement (Attachment 24). Mr. Loney stated that Goodyear opposes inverted rate structures which will raise operation costs because the Topeka plant is already struggling to reduce costs and improve efficiency to make their plant attractive to management for more production. The Topeka plant's utility costs are the second highest of all Goodyear tire plants at this time, Mr. Loney told the Committee members. Mr. Loney reported that while other Goodyear plants' electric costs doubled in the past four years, the costs in Topeka have tripled. Mr. Loney emphasized that competition alone offers enough incentive for energy conservation today. He described Goodyear as a leader in the rubber industry in the application of energy conservation and has set the goal of 15 percent energy reduction by 1980.

During discussion which followed his presentation, Mr. Loney said that a new Goodyear plant in Lawton, Oklahoma, with highest efficiency, will jeopardize added production in Goodyear's other plants which are not efficient. When asked if Goodyear had had expert conservation help with their Topeka plant, Mr. Loney said that Goodyear is the forefront leader in rubber industry energy conservation with special rubber industry techniques, and he delivers lectures in other plants on efficiency. Energy costs have certainly been a factor in the Topeka plant's efficiency ratings as compared with other plants, Mr. Loney said. When asked how much reduction of energy cost would be necessary to bring the Topeka plant up to competitive standards, Mr. Loney explained that this was difficult to answer, but that a substantial drop in energy costs is needed for the Topeka plant to maintain their present production level or to enjoy a good rate of growth.

Chairman Mainey expressed his appreciation to all conferess and guests for their attendance. He announced that hearings on Proposal No. 23 would be included in the Committee's meeting October 13-14.

The meeting was adjourned.

Prepared by Ramon Powers

Approved by Committee on:

October 14 1977

(date)

Mid-America Coalition For Energy Alternatives
5130 MISSION ROAD SHAWNEE MISSION KS 66205 (913) 362-5232

Attachment 1

STATEMENT ON PROPOSAL NO. 22 TO
SPECIAL COMMITTEE ON ENERGY
September 21, 1977 by Diane Tegtmeier

I am, again, grateful to this committee for the opportunity to speak here this morning. Quite frankly, however, I find it amazing that the Legislature is still considering an issue, the inclusion of Construction Work in Progress (CWIP) in the rate base, which is clearly an affront to the consumer, the free market economy, and wise energy management. There is no reason to believe that the citizens of Kansas will react any differently from their neighbors in Missouri, who voted 2 to 1 against CWIP, if this Legislature does not pass favorably on a bill such as the one proposed by Rep. Luzzati in the 1977 Session.

The affront to the consumer by inclusion of CWIP is apparent. No one wants increased electric bills reflecting interest costs of construction from which they may never use one kilowatt. Forced lending has not and should never be allowed. Also, since using CWIP entails charging customers for the taxes the utility must pay (or defer?) for the increased revenue, this amounts to citizens paying taxes in advance!

The distortion of the capital marketplace represented by CWIP is slightly more subtle. The parameters studied by investors in utilities consist of regulatory environment, capital ratios, size

Att. 1

of construction program, fuel mix, etc. Of major importance is the lead time of a construction project -- how long from the time of initial construction investment to the time when the plant is yielding <u>real</u> revenue -- not accounting "paper" dollars. Investors clearly prefer shorter times and more certain returns on investment and demand interest payments reflecting the degree of risk involved on their part. Use of CWIP camouflages this standard market practice by guaranteeing payment of interest by present customers instead of competing again in the market to pay the interest. The interest costs, therefore, would not reflect the degree of risk involved and the entire system of investment priorities would be distorted. The private utilities would not be competing fairly with other industries, nor would there be any incentive for them to plan capital expenses wisely, worry about cost overruns or, for that matter, to ever finish a plant. Consumers would continue paying the interest expense on construction.

Historically, in this country, we have trusted the decisions of investors in risk assessment, hoping that this would be a check against uneconomic ventures. The use of CWIP would remove utilities from this arena. The issue really is, therefore -- do we want to continue with "private" utilities or move one stip closer to public power by allowing the use of CWIP. The utilities, under the thin veil of keeping costs down, can't have it both ways.

Let's look at the point made by utilities that by asking for CWIP they are merely reducing the overall costs to the consumer. It is true that the total interest expenditure by the utility

would be less using CWIP. However, if the utility is correct in its demand forecasting, there will be many more consumers, to pay for the portion of this demand for which they are responsible. If the forecasting is not correct and overbuilding results, the future rates will be higher and past customers will have helped finance plant being used to sell power out of the service area. The latter scenario could likely come about directly as a result of the higher initial rates of CWIP. Reduction in electricity use in response to higher rates will reduce the demand. Also, if instead of building very large expensive new plant because of financing difficulty, utilities chose instead to defer building, build a smaller plant more attractive to investors or seriously work on load management, the total rate base would be lower resulting in lower costs to the consumer.

We must look at CWIP for exactly what it is -- a utility bailout. Samuel Jensch, Chairman of the Nuclear Regulatory Commission Licensing Board referred last year to CWIP as "goodies" from the government to help utilities with their cash flow problems. Kansas isn't in the habit of handing out "goodies" and it shouldn't start now!

STATE OF KANSAS

RUTH LUZZATI
REPRESENTATIVE EIGHTY-FOURTH DISTRICT
SEDGWICK COUNTY
5203 PLAZA LANE
WICHITA, KANSAS 67208

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
CHAIRMAN LEGISLATIVE EDUCATIONAL PLANNING COMMITTEE (1202 COMMISSION)
VICE-CHAIRMAN LEGISLATIVE, JUDICIAL AND CONGRESSIONAL APPORTIONMENT
MEMBER WAYS AND MEANS
EDUCATION
LEGISLATIVE POST AUDIT

September 16, 1977

Senator Bill Morris
9822 Hardtner
Wichita, Kansas 67212

Dear Bill:

Since I am not able to attend the hearing before the Interim Energy Committee on September 21, I would like to take this opportunity to thank you for giving consideration to House Bill 2070 which I introduced during the 1977 session.

As time goes by, there is increased need to protect the individual consumer from excessive utility costs. The investor-owned utilities, in my opinion, are too prone to let the consumer pay the long-range costs of construction which should more properly be paid by their investors. (I take the position that if we consumers are to share the risks, then we should be shareholders. But that is another matter, not part of H.B. 2070.)

The investor-owned utilities and their supporters will tell you that they need to have CWIP as part of the rate base because borrowing for large expensive projects in the money market is difficult. The facts do not hear out this contention, as the utility bond market, at least as recently as May 1977, was very good. If, however, the prudent investor were avoiding a utility's offering, why should we legislators permit the Kansas consumers -our constituents- to be forced to pay for a project they may never live to see built?

I urge you to consider these points when you are discussing House Bill 2070.

Sincerely yours,

Ruth

Ruth Luzzati
84th District

RL/djs

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Session of 1977

HOUSE BILL No. 2070

By Representative Luzzati

1-6

AN ACT relating to the state corporation commission; concerning valuation of certain property of public utilities and common carriers; amending K.S.A. 66-128, and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 66-128 is hereby amended to read as follows: 66-128. Said commission shall have the power and it shall be its duty to ascertain the reasonable value of all property of any common carrier or public utility governed by the provisons of this act used or required to be used in its services to the public within the state of Kansas, whenever it deems the ascertainment of such value necessary in order to enable the commission to fix fair and reasonable rates, joint rates, tolls and charges, and in making such valuations they may avail themselves of any reports, records or other things available to them in the office of any national, state or municipal officer or board. *For the purposes of this act, property of any public utility which has not been completed and dedicated to commercial service shall not be deemed to be used or required to be used in said public utility's service to the public.*

Sec. 2. K.S.A. 66-128 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the official state paper.

Sept. 21, 1977

The Consumer Utility Rights Board's report on Cost of Work in Progress

To: The Legislative Committee on Energy

The Consumer Utility Rights Board opposes the concept of Cost of Work in Progress from the stand point that consumer interests would be subverted and not represented. In the two instances where CWIP has been brought up for approval the public has been very critical of the concept. These being when CWIP was brought to the Federal Power Commission and the voters of Missouri. The vote in Missouri was 3 to 1 against CWIP and that was with a very expensive utility campaign for CWIP. The FPC turned down the CWIP request also.

The issue is whether we allow a profit making body to determine how fast their industry will grow and expand their rate base which is where they make their profits. There is quite a bit of evidence that utilities over estimate their growth rate. Con Edison over estimated to the point where they had to sell two power plants to the state to avoid financial loss. This was due to the 1973 energy crisis where people were conserving. Which points up the extraneous varibles which could affect any growth calculations. Conservation and rate reform can make a large impact on the growth rates of the utilities. The summer peak is KG&E's highest demand period of the year and for which KG&E must plan new plants around. If peak-load pricing becomes a realized rate than it might dramatically affect KG&E's summer peak and alter their plans. Utility bills are rising in KG&E's service area at a very consistant rate and catching many consumers by surprise. This is due to frequent rate increases and to the use of more expensive fuels. In any market as the price of the commodity increases more people do without or cut down their use. With electricity or natural gas people shut off rooms and insulate.

If the utilities are allowed to charge us for their future plants and thus guarentee their income than what motivation is there for them to encourage conservation or less expensive alternatives which technology might develop. What encouragement is there to retrofit natural gas plants to coal. KG&E's capacity has been around 50% in the past, what motivation is there for them to increase the efficiency of their operation and keep our bills down if it jepordizes their rate base.

If CWIP is approved than the people who stand to benefit the most are the stockholders. The consumers pay for the speculative investment of the utility and reap any results from bad judgements or miscalculation of the utility. But the customer does not gain any return on our investment, the stockholders do.

If the representatives of the people of the state of Kansas deem that there is a need for more power and ask their respective communities to invest in future utility plants through your approval of CWIP, then it would seem that that investment would belong to the state. If the state wants CWIP financed power plants then the state could subcontract the plants to a private company to run but retain for the people any return on the people's money plus ownership of the plants. KG&E or KP&L or the utility deemed appropriate could be contracted to run any such plants and they could then feed into their existing lines the power generated.

Atch 5

The state could also take the initiative to contract for any spare capacity in the state or reginal power which might be available. Possibly arrangements could be made to sell extra Kansas winter capacity to a northern state in return for their summer spare capacity. It would seem more efficient to make any plans for future power on a state or reginal basis not based on just one segment of our state.

Energy is a necessity of life and it is becoming more complex and political as the fuel resources decline and the costs of capital increase. The residents and commerce of our state need protection and representation from their representatives to guard them against undue high bills and waste of our resources. As the speculative nature of raising capital for energy expansion increases there should be some counter balance and care given to such considerations such as Cost of Work in Progress. We urge you to disaprove of the concept of CWIP without more state control.

Attachment 6

CWIP IN RATE BASE

B-1. Working Capital: Major CWIP

Stipulation: Item 6(B), p. 3.

KCPL: Direct Testimony of R. K. Zimmerman, K. G. Hovland and S. C. Whiteaker, Exh. 1 and 22.

Staff: Tr. Vol. V, pp. 8-9, Exh. 52, Sch. B-3.

a. Required Capacity Additions:

KCPL estimates its 1976 peak demand at 1995 Mw (Tr. RKZ Supp. 1), and that such demand will grow at an annual average rate of 5 to 5.5% (Tr. RKZ 9), or about 625 Mw during the 1976-81 period. As such, KCPL estimates its 1981 peak demand at 2620 Mw, which together with a 15% reserve will require an accredited capacity of 3013 Mw to meet its 1981 peak demand, the year prior to the scheduled completion of Wolf Creek Unit #1 in 1982.

In 1976 KCPL will have a net installed accredited generating capacity of 2361 Mw, including Northeast #13 and #14 with 116 Mw of new combustion turbine capacity (Tr. RKZ Supp. 1). During the 1976-81 period, KCPL will lose 118 Mw of hydro capacity presently available to it, and will lose 340 Mw of its existing generating capacity due to retirements and deratings (Tr. RKZ 7). As such, KCPL's 1976 installed accredited capacity will be reduced to 2021 Mw by such retirements and deratings, and KCPL must provide during the 1976-81 period about 1000 Mw of new generating capacity to meet its estimated 1981 accredited capacity requirement of 3013 Mw. (Tr. RKZ 3-9)

KCPL's 1976-81 construction program includes, in addition to Northeast #13 and #14, the following generating additions as shown on Exhibit 1:

Unit	Type	Completion	Accredited Mw
La Cygne #2	Base	1977	315
Riverside #1	Peak	1979	100
Iatan #1	Base	1980	420
		Total . .	835

That construction program has been designed with substantial flexibility to permit KCPL to match its actual load growth by the addition or deferment of

Atch. 6

oil-fired combustion turbines which have short lead times. KCPL will be in a position to reappraise its capacity situation after each summer peak period and to make any required minor capacity adjustment effective as of the beginning of the second summer peak period (Tr. RKZ 9).

(KCPL now plans to increase its ownership participation in Iatan Unit #1 by 53 Mw and to install an additional 116 Mw of combustion turbine capacity, Northeast #17 and #18, for a total increase of 169 Mw, which with the 835 Mw of new construction listed above will provide the required 1000 Mw of additional capacity by the Summer of 1981.)

b. The Major CWIP Issue:

As of September 30, 1975, KCPL had recorded on its books construction work in progress, including related AFDC, in the amounts of $15,066,500 for La Cygne #2 and $1,111,088 for Iatan #1, as the allocated Kansas portions thereof ("Major CWIP"). KCPL proposes to include such Major CWIP in its Rate Base and discontinue capitalizing AFDC thereon as of the date such Major CWIP is included in its Rate Base (Per Stipulation pp. 3-4, 7-8).

The Staff opposes the inclusion of any Major CWIP in KCPL's Rate Base, apparently based upon the contention that such Major CWIP does not represent "property" of KCPL "used or required to be used in its services to the public within the State of Kansas," as required by K.S.A. 66-128. As shown herein, such Major CWIP is "property" of KCPL "used or required to be used" within the meaning of K.S.A. 66-128 and such statute in no way operates to prohibit the Commission from including Major CWIP in KCPL's Kansas Rate Base.

c. Other Jurisdictions With "Used and Useful" Statutes:

Section 43-305 of the District of Columbia Code requires the Commission to ascertain the

> amount of money expended to procure . . . any . . . property . . . used or useful to the business of such public utility . . . (Emphasis added)

The District of Columbia Court of Appeals, in Goodman v. Public Service Commission, 309 A.2d 97, 101-102 (1973), recently approved the Commission's inclusion of CWIP in the Rate Base of Potomac Electric Power Company, holding that:

> At any given time, a utility is almost certain to have a significant amount of money which has been expended on plant still under construction. Such funds are spent for

> the ultimate benefit of the utility's customers. In a rate case, some method must be utilized to handle such expenditures. There are two generally accepted alternatives. Either the interest on funds so committed may be capitalized, or the actual cost of construction work in progress may be included in the utility's rate base. (Emphasis added)

Section 196.05 of the Wisconsin Annotated Statutes provides as follows:

> Utility property; valuation; revaluation
> (1) Whenever the commission shall deem it either proper or necessary in the interest of effective regulation, the commission shall value or revalue all the property of every public utility actually used and useful for the convenience of the public. (Emphasis added)

In Re Wisconsin Electric Power Company, 77 P.U.R.3d 435, 437-438 (1969) the Wisconsin Commission held that AFDC is "a form of compensation to the utility for the absence of a return on use of funds during the unproductive period when the plant is being constructed," and if AFDC is not capitalized as a component of the cost of constructing utility plant, it is reasonable and just that

> appropriate adjustments be provided in utility rates during construction periods, either by adjusting the rate of return on the net investment rate base on plant used and useful in rendering utility service so as to provide funds to cover capital requirements of the utility, or the net investment rate base should be adjusted to include the average investment in plant under construction. (Emphasis added)

Section 366.06(2) of the Florida Statutes Annotated requires the Florida P.S.C. to

> investigate and determine the actual legitimate costs of the property of each utility company, actually used and useful in the public service . . . (Emphasis added)

Inclusion by the Commission of CWIP in Rate Base of Florida Power & Light Company was questioned in Shevin v. Yarborough, 274 So.2d 505 (1973), but the Florida Supreme Court found its inclusion to be proper and reasonable when AFDC is not capitalized and when the affected utility is experiencing unprecedented high capital and operating costs attributable primarily to inflation. The Florida Supreme Court specifically held to be without merit the contention that including CWIP in Rate Base is contrary to the intention of the Legislature in enacting Section 366.06(2), F.S.A.

Similarly, in Baltimore Gas and Electric Company v. People's Counsel, 152 A.2d 825, 828-829 (1959) the Maryland Court of Appeals addressed the "used and useful" language contained in Sections 69 and 72 of Article 78 of the Maryland Annotated Statutes and held:

> Another established usage which shows that the phrase used and useful in the public service historically does not rigidly and literally bind the rate setting body to that which has occurred at the time of the hearing is the inclusion in the rate base of property acquired and held in anticipation of reasonable future needs but not actually in service. Such property may be included in the rate base if the regulatory body determines that its acquisition was reasonably necessary and its use may be anticipated with reasonable precision, or if, it has sometimes been held, the property is likely to be placed in service within the period for which the rates are fixed. (Citations omitted) (Emphasis added)

In Re Chesapeake and Potomac Telephone Company of Baltimore City, 70 P.U.R. (NS) 97 (1947), the Maryland Public Service Commission was again faced with the contention that plant under construction (and land acquired for future use) is not "used and useful in the public service." After acknowledging that under the applicable statutes a utility's rates must be predicated on the fair value of property used and useful in rendering service to the public, the Commission held that both CWIP and property held for future use are allowable items in arriving at the Rate Base, because the rate fixed must be just and reasonable as to the present and also for a reasonable time in the future.

Chapter 111 2/3, Section 36 of the Illinois Annotated Statutes provides that the Commerce Commission is to grant a public utility

> a reasonable return upon the value of said public utility's property used and useful in rendering its service to the public . . . .

The Illinois Commission in Re Illinois Bell Telephone Company, 7 P.U.R.3d 493, 502 (1955) included in Rate Base both plant under construction and property held for future use, holding that:

> The commission staff questions whether the Company's claim for telephone plant under construction ($11,741,219) and its claim for property held for future telephone use ($1,719,884) should be included in the rate base. It is urged that neither of these two accounts represents used and useful property in serving the Illinois ratepayers and that, therefore the ratepayers should not be required to pay a return to the Company thereon.
>
> . . . [T]he contention rests on too narrow an interpretation of used and useful property. The plant under construction account represents facilities that are being constructed by the Company to serve its customers. No question is raised as to the prudence of the construction program; it is admittedly necessary if the Company is to continue to render adequate service. Thus, the program involves capital reasonably embarked in the business on which the Company should be allowed a return.
>
> Substantially the same comments are relevant to the inclusion of property held for future use in the rate base. (Emphasis added)

In Re The Peoples Gaslight and Coke Company, 27 P.U.R.3rd 209, 224 (1959), the same Commission again recognized the propriety of including in Rate Base both new plant and replacement plant, holding:

> It would be unjust to require Peoples to make investments in such replacement plant without allowing interest during construction or a return on the same during the period reasonably required to complete the construction. Further, replacement construction of utility property is made to serve customers just as much as new construction. Since revenues derived from both types of construction help to defray the cost of service, both should obviously be included in the rate base. (Emphasis added)

Other regulatory commissions have included construction work in progress in utilities' Rate Bases even though their enabling statutes speak in terms of "used and useful" property. See, for example, Chapter 66, Section 1149 of the Pennsylvania Statutes Annotated and Pennsylvania Public Utility Commission v. Philadelphia Electric Company, 91 P.U.R.3d 321 (1971); Section 278.290 of the Kentucky Revised Statutes, Re Kentucky Utilities Company, 95 P.U.R.3d 372 (Ky. P.S.C. 1972), and Re Louisville Gas and Electric Company, 99 P.U.R.3d 104 (Ky. P.S.C. 1973).

d. "Property" Includes Capital Funds Invested in CWIP:

The Staff's position would equate ratepayer benefit with physical use of the completed facility. See Goodman v. Public Services Commission, 497 F.2d 661, 668 (D. C. Cir. 1974), where the Court stated that "[f]unds are not necessarily used or useful only when they are currently invested in completed plants." In Central Illinois Light Company, Case Nos. 58925 and 59179 (Ill. 1974), the Illinois Commission included $52,582,000 of Construction Work in Progress in an electric Rate Base which totaled $314,303,000 (Report and Order, p. 5). In so doing, the Commission held:

> The Commission is of the opinion that construction work may, in whole or in part, be as used and useful and to the benefit of the customer as is property held for future use.
>
> The $44,582,000 which CILCO seeks to include in the rate base has been furnished by CILCO investors. Present ratepayers benefit from this investment in construction of additional generating facilities in that they receive present assurances that their future increased service requirements in their homes and places of employment will be met.
>
> The Commission views the investment of funds in construction work in progress as used and useful and to the benefit of the customer and which may be included as a component of the rate base. (Report and Order, p. 7)

The Staff's posture on this issue apparently requires that "benefit" be measured by the physical characteristics of the facilities involved, and

thereby ignores any benefit that may accrue from the investment in those facilities. In Washington Gaslight Company v. Baker, 188 F.2d 11, 19 (D. C. Cir. 1950), the Court quoted approvingly from the dissenting opinion of Justice Brandeis in Southwestern Telephone Company v. Public Service Commission, 262 U.S. 276, at 290, as follows:

> The thing devoted by the investor to the public use is not specific property, tangible and intangible, but capital embarked in the enterprise.

Similarly, in Illinois the Commission found the "property" required to be "used and useful" to be the "capital reasonably embarked" in the CWIP. Re Illinois Bell Telephone Company, supra, at p. 502.

In Maryland its Court of Appeals approved the inclusion in the Rate Base of "property acquired and held in anticipation of reasonable future needs but not actually in service." Baltimore Gas and Electric Company v. People's Counsel, supra, at p. 828.

In Oklahoma its Commission held on May 20, 1976, in Re Oklahoma Gas and Electric Company, Order No. 121513, as follows:

> Staff and some of the Intervenors excluded CWIP from rate base. Staff gave the traditional reason that CWIP could not meet the "used and useful" concept. Staff's use of the "used and useful" concept is predicated upon the theory that plant under construction does not currently benefit customers and is, therefore, not entitled to earn a rate of return for the utility. This theory ignores the fact that utilities are legally required to responsibly plan to meet the future load growth on their system created by the future service needs of their customers. We find that the assurance that these future needs will be satisfied is of obvious and immediate benefit to present customers. The investment which a utility must make in its on-going construction program is an investment made for the benefit of its customers. Therefore, it is an investment which must be termed to be "used and useful" and upon which the utility should be entitled to a reasonable return.
>
> * * *
>
> The Commission reiterates its belief that neither the Commission nor the Applicant can operate in an abstract vacuum; reasonable available cash flow must be met; these items represent funds supplied by the investor on which they are entitled to an opportunity to earn a rate of return found fair and reasonable. The Commission believes that this is in the public interest and therefore finds that the amount found herein should be included in Applicant's rate base. In order to prohibit double recovery, the Applicant will not be permitted to accrue any allowance for funds used during construction upon CWIP so included in the rate base. Allowance for funds used during construction on CWIP in excess of the amounts allowed herein to be included in rate base may be accrued and capitalized by Applicant.

In Columbus Gas & Fuel Co. v. Public Utilities Commission, 292 U.S. 398, 420 54 S.Ct. 763, 767, 78 L.Ed. 1327, 1332 (1934) appears the oft-quoted observation of Mr. Justice Cardozo that certain utility property not yet in service may be included in the Rate Base because it has the "quality of working capital."

e. Kansas Statutes and Decisions:

Our Kansas Supreme Court undoubtedly had in mind Justice Cardozo's ruling, when in its recent decision in Kansas Gas and Electric Company v. State Corporation Commission, 218 Kan. 670, 554 P.2d 1396, 1401-1402 (1976), applying the "property used or required to be used" provision of K.S.A. 66-128, it quoted with approval the following holding of the Vermont Supreme Court:

> The rule followed by us in dealing with the question of property held for future use "recognizes that business judgment must be employed to anticipate future needs and that this judgment cannot be arbitrarily interfered with." The test generally applied is whether the time for using the property in question is so near that it may properly be held to have the quality of working capital. The question is one of fact to be determined by the Commission. (Emphasis added)

K.S.A. 66-128 specifically provides, inter alia:

> Valuation of utility property by commission, when. Said commission shall have the power and it shall be its duty to ascertain the reasonable value of all property of any . . . public utility . . . used or required to be used in its services to the public within the state of Kansas, whenever it deems the ascertainment of such value necessary in order to enable the commission to fix fair and reasonable rates . . . (Emphasis added)

KCPL submits that K.S.A. 66-128, which was adopted in 1911, was not intended by the Legislature to be employed as a surgeon's tool for dissecting from Rate Base capital funds prudently invested in constructing on a timely basis new generating additions which will be required to meet the increasing demands of its electric customers and to replace worn out or obsolete plants. Historically, as in other jurisdictions, this phrase was designed to eliminate from the Rate Base the utility's investments in property (i) which are not and will not on a timely basis be used for the purpose of providing the utility service for which the rates are being fixed, or (ii) which are considered to be imprudent investments not necessary for the utility service furnished or to be furnished.

As the record herein shows, KCPL is involved not only in the business of providing electric energy to electric customers in its service areas,

but also in the steam heat business in downtown Kansas City, Missouri, and was formerly engaged in lamp bulb sales, merchandising of electric appliances, the ice and water utility business and the transit trolley car business (Tr. Vol. V, pp. 42-43, 52, 55). Historically, "property" acquired to operate those businesses was not "used or required to be used" in furnishing electric service to KCPL's Kansas customers and traditionally was excluded from KCPL's Rate Base in compliance with K.S.A. 66-128. (Tr. Vol. V, pp. 55-56, 104-105).

Clearly, in this electric rate proceeding, KCPL's rates fixed by this Commission must be sufficient to (i) reimburse KCPL for its reasonable electric operating expenses incurred, including taxes, (ii) reimburse investors through depreciation rates for capital consumed in the electric business (a return of the capital), and (iii) provide an opportunity to stockholders to earn a return for use of capital invested in the electric business that is not yet consumed in the operations (a return on the capital) (Tr. Vol. V, pp. 54-55, 56-59, 80-81). The amount of "capital not yet consumed in the electric operations" is the sum of (i) Net Plant in Service (i.e. Gross Plant in Service less the Depreciation Reserve reflecting the actual depreciation expense accruals received thereon) and (ii) Working Capital represented by cash and other property not included as depreciable Plant in Service, as shown in the Stipulation herein (Tr. Vol. V, pp. 55-56). The Rate Base on which the stockholders are entitled to earn a return is the remaining capital invested in the Net Plant in Service plus the Working Capital consisting most often of fuel inventories, materials and supplies, prepayments, cash requirements and other capital items not included in the Gross Plant in Service (Tr. Vol. V, pp. 59-60, 101).

The Staff testified that fuel inventories may include a 120-day supply which may never be used, but such inventories are required to assure future service and are therefore included in Rate Base (Tr. Vol. V, pp. 48, 102-103, 106). Materials and supplies are in warehouses, storage yards or Company trucks and are not presently used or required to be used in electric service, but they are included in Rate Base because they might be needed in the future to maintain service to electric customers (Tr. Vol. V, pp. 48, 103). Although there was disagreement as to the amount of cash working

capital to be included in KCPL's Rate Base, the Staff concurred that investors should receive a return on capital funds provided for such purpose (Tr. Vol. V, pp. 59-61, 152). The Staff's views at least partially coincide with those generally accepted:

> Working capital—the funds representing necessary investments in materials and supplies, and the cash required to meet current obligations and to maintain minimum bank balances--is included in the rate base so that investors are compensated for capital they have supplied to the company. The amount required largely depends on a company's purchasing and billing methods, as well as its construction program. (Emphasis added)

Phillips, The Economics of Regulation, p. 253 (Richard D. Irwin, Inc. 1969).

We respectfully submit that the phrase "used or required to be used" set forth in K.S.A. 66-128 is a means by which non-utility and excessive or imprudently acquired utility properties are to be excluded from Rate Base. Materials and supplies, fuel inventories, and prudent CWIP not physically "used or required to be used," but necessary to assure KCPL's ability to render future service to its electric customers, all represent capital investment by the stockholders which has the "quality of working capital." KCPL's investment therein is "used or required to be used" in KCPL's electric service to the public within the state of Kansas, and KCPL stockholders are entitled to a just and reasonable return thereon.

The Kansas Supreme Court apparently agreed that such CWIP is includable in Rate Base, as the Court quoted favorably from 73 C.J.S. Public Utilities Section 18 in Kansas Gas & Electric Company v. State Corporation Commission, 544 P.2d 1396, 1401 (1976):

> [P]roperty or equipment provided or acquired in anticipation of reasonable future need should be allowed as part of the rate base even though wholly or partially unused at the time to which the inquiry relates. (Emphasis added)

The Oklahoma State Corporation Commission has included construction work in progress in the Rate Base of Oklahoma Gas and Electric Company,[1] specifically stating that (i) CWIP is in lieu of AFDC, (ii) the evidence showed 73% of required new generating capacity to be due to anticipated additional service requirements of existing customers, (iii) that utilities are legally required to responsibly plan to meet the future load growth on their system by the future service needs of their customers, and (iv)

---

[1] In the Matter of the Application of Oklahoma Gas and Electric Company, Cause No. 25567, Order No. 121513.

inclusion of CWIP in Rate Base will decrease the utility's total revenue requirement over the life of the plant constructed and will result in lower rates to the customer. Although the Oklahoma Statutes do not contain explicit "used and useful" language, the Oklahoma Supreme Court has consistently so interpreted them. See Okmulgee Gas Co. v. Corporation Commission, 95 Okla. 213, 220 P. 28 (1923).

The duty of a public utility to reasonably anticipate and prepare for future needs of customers in its service area is universally recognized. Idaho Underground Water Users Association v. Idaho Power Company, 404 P.2d 859 (Idaho 1965). The Supreme Court of Kansas in Kansas Gas and Electric Company v. State Corporation Commission, supra, at p. 1402, noted a finding of this Commission:

> Unquestionably, electric utilities must plan for the future. To construct generating plants only when the need arises is, of course, ridiculous and to construct it only for those needs without anticipating future growth would be even more ridiculous. If such were the case, electric utilities would always be operating behind their current load requirements instead of ahead.

Furthermore, this very duty is often cited as a basis for allowance of construction work in progress in Rate Base:

> The board has continuing surveillance of the service of utilities and utilities are required to provide safe, adequate, and proper service and to effectuate plans to fulfill this requirement. In reviewing its obligation in this respect, the board will not normally interfere with management's judgment as to the facilities required to provide reasonably adequate and proper service, unless such judgment is shown to be improper. No such impropriety has been shown and we do not find that the proposed additions are beyond those required at this time.
>
> * * *
>
> The board finds that the "committed additions" in the amount of $1,645,889 are necessary in the petitioner's operations to enable it to meet its present and future needs in rendering safe, adequate, and proper service and will consider this item as part of its rate base calculation.

Re Monmouth Consolidated Water Company, 75 P.U.R.3d 223, 230 (N.J. Bd. of P.U.C. 1968). See also State ex rel. Pacific Telephone & Telegraph Co. v. Department of Public Service, 142 P.2d 498 (Wash. 1943) and Re Illinois Bell Telephone Company, 7 P.U.R.3d 493 (Ill. C.C. 1955).

KCPL submits that the Major CWIP represents investments actually made by KCPL in the performance of its duty to anticipate and provide reasonably for the future service needs of its Kansas electric customers and that such investments are "property" of KCPL "used or required to be used" within the

meaning of K.S.A. 66-128. Therefore, the Commission has the "power" under that statute to include such Major CWIP in ascertaining the "reasonable value of all the property" of KCPL "used or required to be used" in KCPL's electric service within the State of Kansas.

f. Major CWIP in Valuation:

K.S.A. 66-128 also imposes a "duty" upon the Commission to "ascertain the reasonable value of all such property . . . used or required to be used" in KCPL's electric operations in Kansas. In performing such "duty," this Commission is not restricted as to the formula to be used in arriving at the reasonable value of KCPL's electric property for rate-making purposes. Southwestern Bell Telephone Company v. State Corporation Commission, 192 Kan. 39, 386 P.2d 515 (1963). "The Commission should receive and consider all evidence which has a relevant bearing on reasonable value and then determine what formula it thinks should be used under the facts and circumstances in the case." 386 P.2d, at p. 539. The question of whether utility property is used or useful for inclusion in Rate Base is thus a factual determination rather than a legal question. Kansas Gas and Electric Company v. State Corporation Commission, supra; Idaho Underground Water Users Assn. v. Idaho Power Company, supra.

In making the factual determination of KCPL's Rate Base in the instant proceeding, this Commission should be guided by certain legal principles:

> [A]ny valuation of property used and useful should fairly state the actual investment made by investors in the company's property and the value upon which the stockholders, present and future, will expect a return. (Emphasis added)

Re Pacific Power & Light Company, 86 P.U.R.3d 417 (Ore. P.U.C. 1970). In utilizing a test period for rate-making purposes, some adjustment is necessary where the normal test period for some reason is not representative of future conditions, such as where a utility installs large quantities of new equipment subsequent to the normal test period. Re New York Telephone Company, 92 P.U.R.3d 321 (N.Y.P.S.C. 1971). A utility is entitled to ask a fair return on the value of the property or capital it employs for the public convenience. State Public Utilities Commission ex rel. City of Springfield v. Springfield Gas & Electric Company, 125 N.E. 891 (Ill. 1920). Furthermore,

> The basis of all calculations as to the reasonableness of rates to be charged by a corporation maintaining a public utility under legislative sanction must be the fair value

> of the property being used by it for the convenience of the public, and in order to ascertain that value the original cost of construction, the amount expended in permanent improvements, the present cost of construction, the probable earning capacity of the property under the particular rates prescribed by statute, and the sum required to meet operating expenses are all matters for consideration and are to be given such weight as may be just and right in each case. (Citations omitted)

125 N.E., at p. 876. A determination of Rate Base and rate of return must be sufficient to produce adequate revenues above operating expenses to pay interest on a utility's bonds, dividends on its stock and, in general, maintain the financial integrity of the enterprise. Washington Gas Light Co. v. Baker, 188 F.2d 11 (D.C. Cir. 1950).

The Kansas Supreme Court has stated this Commission's duty under K.S.A. 66-128:

> The statute prescribes a two-phase duty of the commission: first, to determine the property of a utility used or required to be used in its services to the public; and second, to ascertain the reasonable value of such property whenever it deems the ascertainment of such value necessary in order to fix fair and reasonable rates.

Kansas Gas and Electric Company v. State Corporation Commission, 544 P.2d 1396, 1400 (1976). There can be no doubt that such a determination is necessary to fixation of fair and reasonable rates for KCPL in the instant proceeding. Nor can it be legitimately contested that the factual record herein clearly supports the absolute need for inclusion of KCPL's construction work in progress in its Rate Base.

As Mr. Zimmerman testified, KCPL's five-year construction budget for the 1975-1979 period was $743 million, including about $73 million of AFDC, leaving a remaining cash construction budget of some $670 million (Tr. RKZ 23-24, Supp. 2). This will result in a near doubling of KCPL's gross utility plant investment, as of December 31, 1974, which, as constructed and acquired during its 92-year corporate history, amounted to $781 million (Tr. RKZ 23). Mr. Zimmerman later stated that in early 1976, KCPL adopted a five-year construction budget for the 1976-1980 period, requiring $812 million in cash, exclusive of any AFDC (Tr. RKZ Supp. 2).

Mr. Zimmerman and Mr. Hovland testified that KCPL believes that not more than 60% of the funds needed for construction can be financed externally through the issuance of securities and still permit KCPL to maintain its capital ratios, protect and improve its security ratings, and thereby

secure at the lowest reasonable cost the additional capital funds required to complete the construction program (Tr. RKZ 24, Supp. 4-6; KGH 13-14). Thus, under the 1975-1979 construction budget, KCPL must generate internally the remaining 40% or $270 million in cash (Tr. RKZ 24). To accomplish this, KCPL's cash earnings must be increased sufficiently to provide a surplus in the form of retained earnings after interest and dividends (Tr. RKZ 25).

Unless this Commission includes Major CWIP in KCPL's Rate Base, such earnings will not be available, and KCPL cannot in the long run maintain its credit ratings and continue to pay interest and dividends on additional financings required to provide the working capital funds for construction of new generating projects out of the non-cash item called AFDC (Tr. RKZ Supp. 5; Vol. V, pp. 112-113). Furthermore, without CWIP in its Rate Base, KCPL's ratio of net utility plant v. total capitalization will continue to deteriorate and be less than 72% at December 31, 1979 (Tr. RKZ 26-28; KCPL Exh. 12; Tr. Vol. III, pp. 57). That 28% differential amounts to some $300 million in total capitalization outstanding at December 31, 1979, for which there would be no cash revenue to KCPL to pay interest and dividends thereon unless CWIP is included in Rate Base (Tr. RKZ 28, 30).

AFDC related to the $300 million of CWIP is a non-cash accounting item which adds to the original cost of plant construction, upon which KCPL's ratepayer will be required to pay a return, related income taxes, depreciation expense, property taxes and insurance premiums in the years following completion of construction if CWIP is not included in KCPL's Rate Base (Tr. RKZ 28; Vol. III, p. 94; Vol. V, pp. 114-118, 217). Elimination of $87.5 million of AFDC through inclusion of all of KCPL's CWIP in its Rate Base would, over the life of the facilities being constructed, reduce future rates by $327.8 million and effect customer savings of $189.5 million over the "present worth" of the $87.5 million (Tr. Vol. III, pp. 92-93; KCPL Exh. 22, Sch. 1). Inclusion of KCPL's Major CWIP will avoid further AFDC accruals on the portion included in the Rate Base, and thereby reduce proportionately KCPL's future rates to its Kansas electric customers (Tr. RKZ 23-24, 28-29). Such treatment is logically recognized to decrease the utility's total revenue requirements over the life of the plant constructed and therefore results in lower rates to its customers. Goodman v. Public

Service Commission, 497 F.2d 661 (D.C. Cir. 1974); In the Matter of the Application of Oklahoma Gas and Electric Company, Cause No. 25567, Order No. 121513, decided May 20, 1976, Okla. Corp. Commission; Re Wisconsin Electric Power Company, 77 P.U.R.3d 435 (Wis. P.S.C. 1969).

Such inclusion of KCPL's Major CWIP in the Rate Base must and does meet the test of justness and reasonableness to the consumer as well as to the investor. Washington Gas Light Co. v. Baker, 188 F.2d 11 (D.C. Cir. 1950). Major CWIP represents capital actually and irretrievably expended by KCPL stockholders and KCPL should be able to earn a cash return thereon (Tr. RKZ 35). Continuing accruals of AFDC on such Major CWIP and deferral of a cash return thereon until completion construction penalizes KCPL's customers in the form of higher future rates and would have a severe adverse impact upon KCPL's cash flow and its ability to finance its construction program, for KCPL's Mortgage Indenture specifies that "non-operating" income cannot exceed 10% of the net earnings available for interest (Tr. Vol. III, p. 88; KGH 10). The level of construction and related AFDC as projected by KCPL for the next five years would mean that a substantial portion of KCPL's net earnings would not be available to meet Indenture coverage purposes (Tr. Vol. III, p. 88).

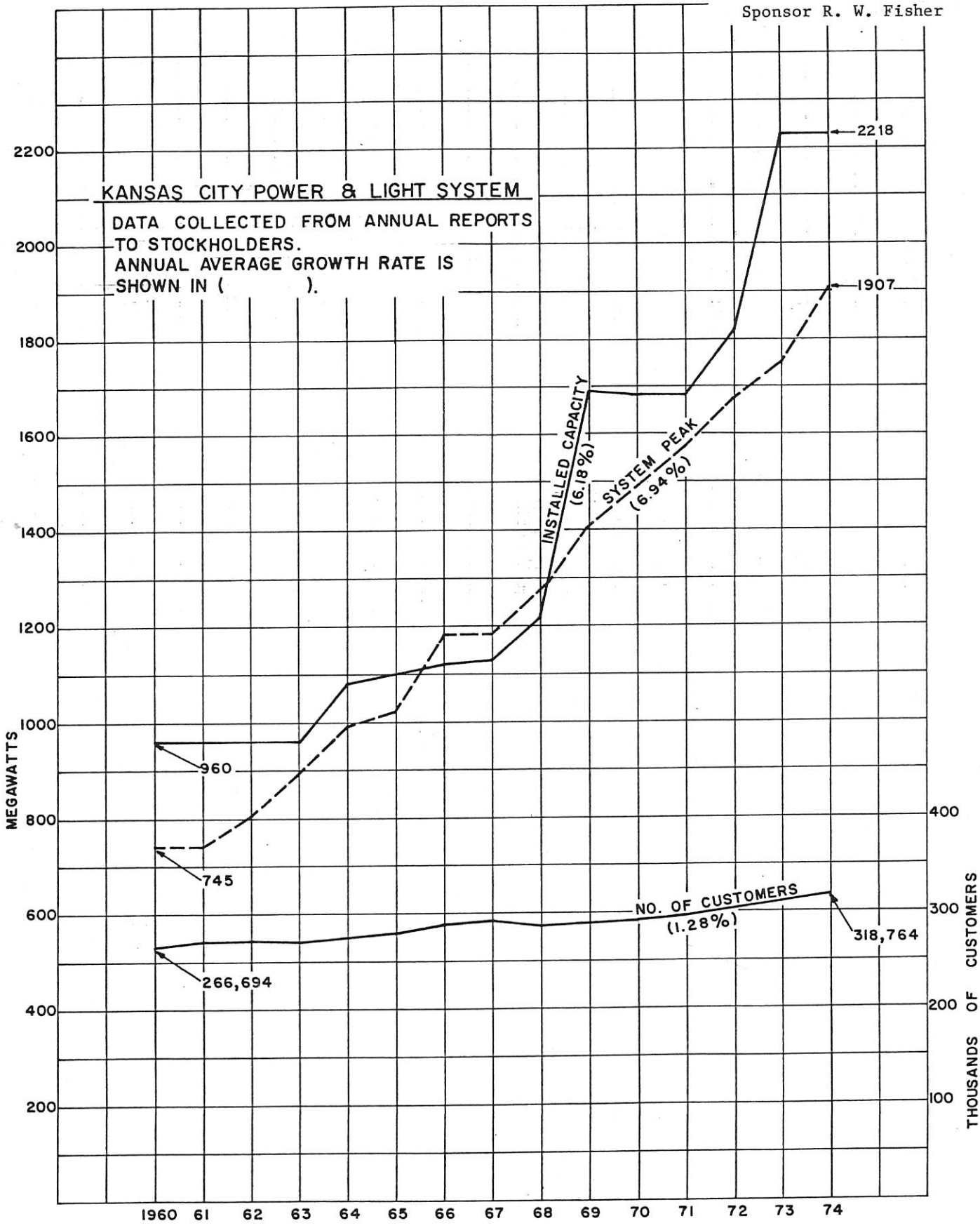
There was a time when exclusion of Major CWIP from Rate Base was not a significant problem, for new construction costs per Kw were not substantially greater than a utility's average investment per Kw and lead times were much shorter (Tr. RKZ 36; KCPL Exh. 1). The record in the instant proceeding clearly shows that these conditions have changed dramatically, and as construction costs rise, continued capitalization of AFDC results in (i) an increasingly larger portion of a utility's earnings being represented by this non-cash item and (ii) a precipitous drop in the Company's earnings when a large construction project is completed, and additional operation and maintenance expense and depreciation expense begin to accrue, thereby necessitating a major rate increase (Tr. RKZ 36-38; Vol. V, pp. 108-110).

As shown on Mr. Fisher's Exhibit No. 2, Schedule 1, KCPL's existing customers on the average were responsible for 82% of the increased demand on KCPL's system during the 15-year period 1960 through 1974, while the remaining 18% was on the average attributable to the addition of new customers (Tr. RKZ 7-8). In the next five years nearly 50% of all new

generating capacity additions of KCPL will be required to replace existing generating capacity lost through retirements, deratings and loss of hydro capacity; thus, more than 90% [50% + (82% of remaining 50%) = 91%] of the additional new generating capacity will be required to meet increasing demands of present customers, while less than 10% will be required to meet the demands of new customers (Tr. RKZ Supp. 5). KCPL's present customers are primarily responsible for its Major CWIP.

It is submitted that the Commission has the "power," and under the undisputed facts in this case has the "duty," to include KCPL's Major CWIP in KCPL's Rate Base.

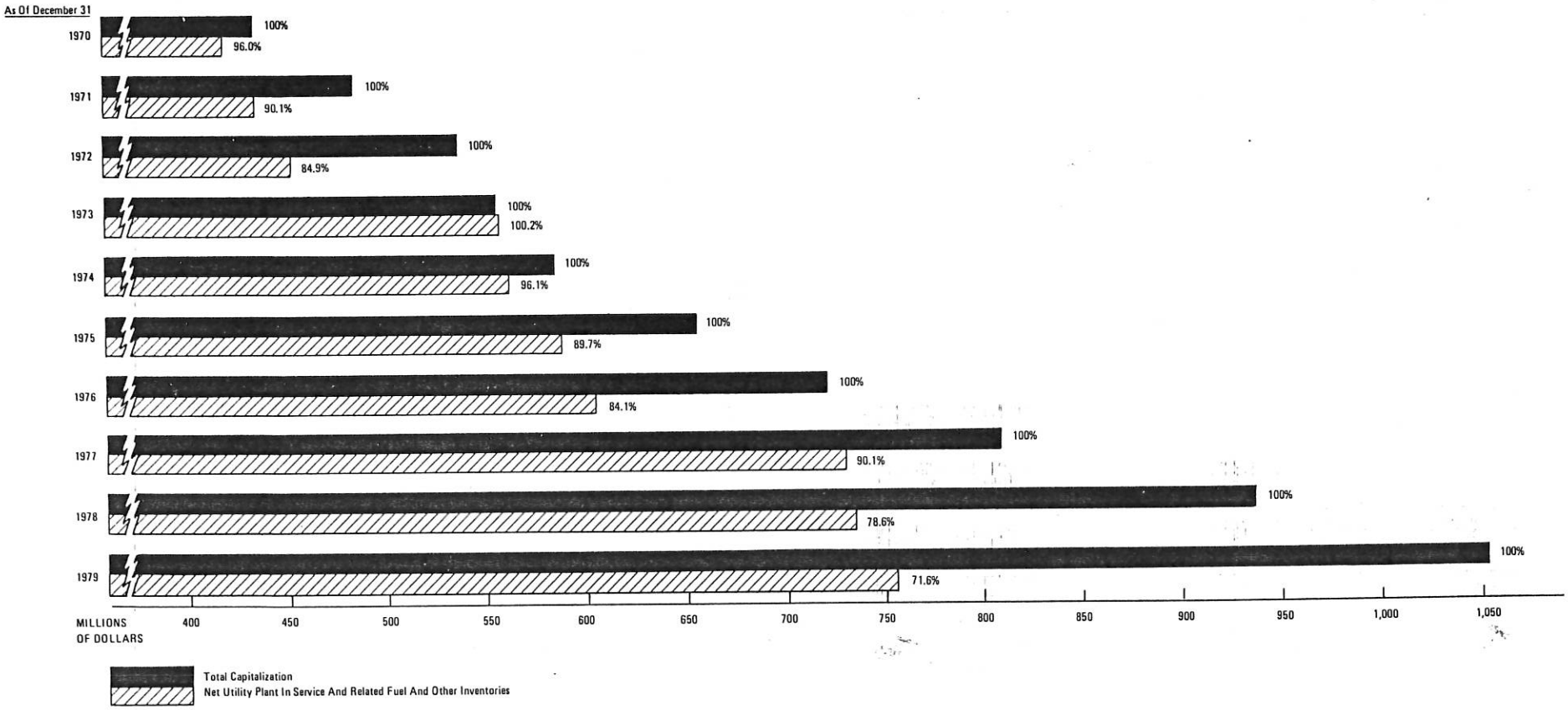
KCPL Exhibit No.
Schedule 1
Sponsor R. W. Fisher



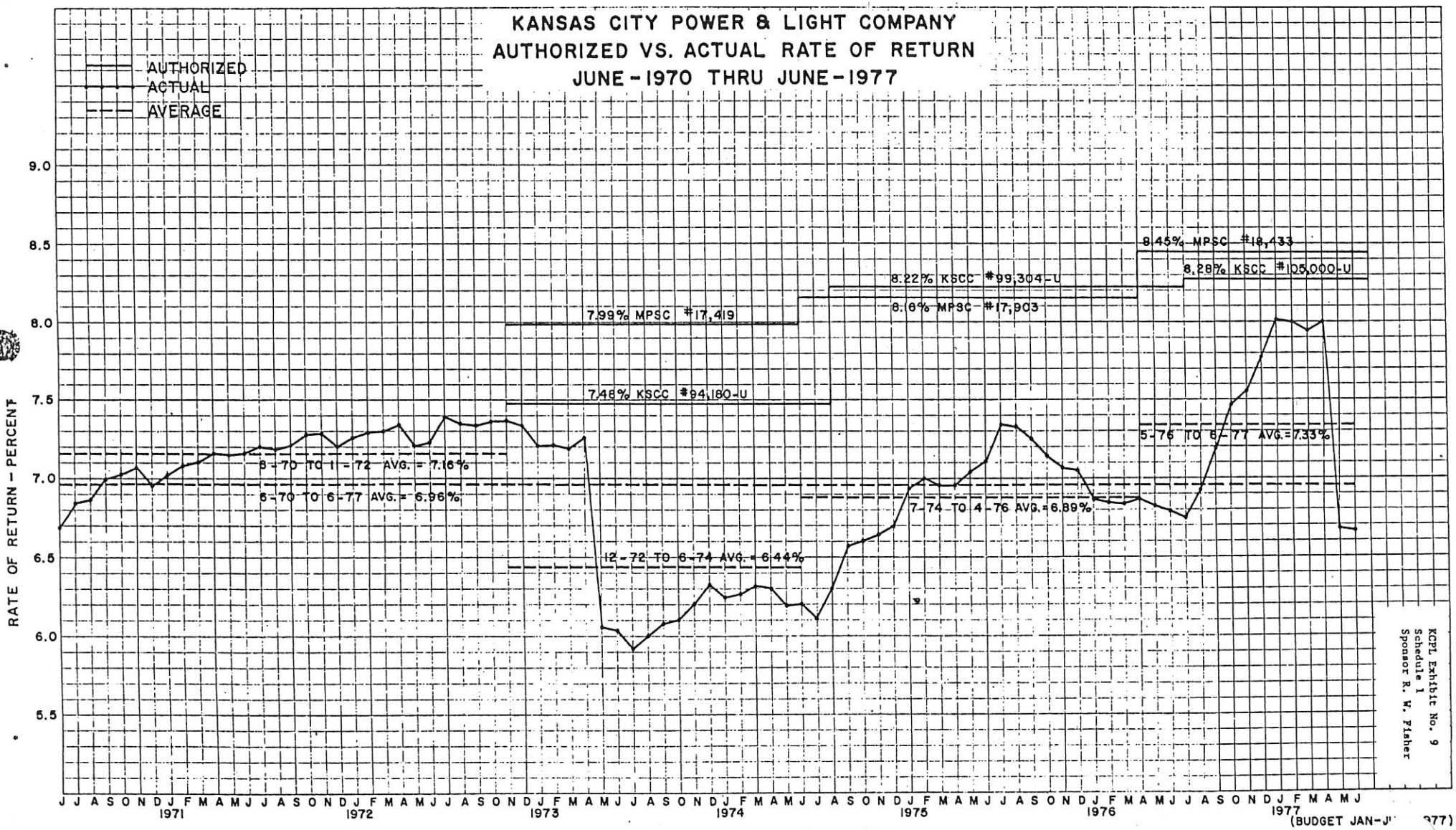
Atch 7

KANSAS CITY POWER & LIGHT COMPANY

Historical and Projected Total Capitalization and Net Utility Plant in Service, Fuel and Other Inventories for the Ten Years Ending December 31, 1979



KCPL Exhibit No. 12
Schedule 1
Sponsor F. R. Pendleton


KANSAS CITY POWER & LIGHT COMPANY
AUTHORIZED VS. ACTUAL RATE OF RETURN
JUNE - 1970 THRU JUNE - 1977
AUTHORIZED
ACTUAL
AVERAGE
RATE OF RETURN - PERCENT
9.0
8.5
8.0
7.5
7.0
6.5
6.0
5.5
7.99% MPSC #17,419
8.22% KSCC #99,304-U
8.16% MPSC - #17,903
8.45% MPSC #18,433
8.28% KSCC #105,000-U
7.46% KSCC #94,180-U
6-70 TO 1-72 AVG. = 7.16%
6-70 TO 6-77 AVG. = 6.96%
12-72 TO 6-74 AVG. = 6.44%
7-74 TO 4-76 AVG. = 6.89%
5-76 TO 6-77 AVG. = 7.33%
J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
1971
1972
1973
1974
1975
1976
1977
(BUDGET JAN-JU 977)
KCPL Exhibit No. 9
Schedule 1
Sponsor R. W. Fisher

KANSAS CITY POWER & LIGHT COMPANY

PROJECTED AFUDC AND/OR CURRENT PAY AS YOU GO

REVENUE REQUIREMENT

(Stated In Millions)

Line No.	Year	AFUDC Computed At 9.2%	Current Pay As You Go Revenue Requirement		
			Total	Income Tax	Net
	(a)	(b)	(c)	(d)	(e)
1	1	$ 6.473	$ 10.234	$ 3.761	$ 6.473
2	2	11.948	18.890	6.942	11.948
3	3	13.043	20.622	7.579	13.043
4	4	21.647	34.225	12.578	21.647
5	5	34.430	54.435	20.005	34.430
6	TOTAL	$ 87.541	$ 138.406	$ 50.865	$ 87.541

KCPL EXHIBIT NO. 22
SCHEDULE 3
WITNESS - WHITEAKER

EFFECT ON CUSTOMERS RATES
OF CAPITALIZED INTEREST
-MILLIONS-

TKWK/
ANALYSIS

YEAR	DEPRECIATION	INSURANCE	AD VALOREM TAXES	RATE OF RETURN	INCOME TAX	ANNUAL EFFECT ON RATES	ACCUM EFFECT ON RATES	PRESENT VALUE ANALYSIS 5.50 % ANNUAL	5.50 % ACCUM	8.00 % ANNUAL	8.00 % ACCUM
1	2.918	.105	1.751	7.786	4.524	17.084	17.084	16.172	16.172	15.775	15.775
2	2.918	.105	1.751	7.517	4.368	16.659	33.743	14.927	31.099	14.203	29.978
3	2.918	.105	1.751	7.249	4.212	16.235	49.978	13.771	44.870	12.781	42.759
4	2.918	.105	1.751	6.980	4.056	15.810	65.788	12.694	57.564	11.493	54.252
5	2.918	.105	1.751	6.712	3.900	15.386	81.174	11.694	69.258	10.327	64.579
6	2.918	.105	1.751	6.443	3.744	14.961	96.135	10.764	80.022	9.272	73.851
7	2.918	.105	1.751	6.175	3.588	14.537	110.672	9.900	89.922	8.319	82.170
8	2.918	.105	1.751	5.906	3.432	14.112	124.784	9.098	99.020	7.457	89.627
9	2.918	.105	1.751	5.638	3.276	13.688	138.472	8.353	107.373	6.679	96.306
10	2.918	.105	1.751	5.369	3.120	13.263	151.735	7.662	115.035	5.975	102.281
11	2.918	.105	1.751	5.101	2.964	12.839	164.574	7.021	122.056	5.341	107.622
12	2.918	.105	1.751	4.832	2.808	12.414	176.988	6.426	128.482	4.768	112.390
13	2.918	.105	1.751	4.564	2.652	11.990	188.978	5.875	134.357	4.253	116.643
14	2.918	.105	1.751	4.295	2.496	11.565	200.543	5.364	139.721	3.787	120.430
15	2.918	.105	1.751	4.027	2.340	11.141	211.684			3.369	123.799
16	2.918	.105	1.751	3.759	2.184	10.717	222.401			2.992	126.791
17	2.918	.105	1.751	3.490	2.028	10.292	232.693			2.654	129.445
18	2.918	.105	1.751	3.222	1.872	9.868	242.561			2.349	131.794
19	2.918	.105	1.751	2.953	1.716	9.443	252.004			2.076	133.870
20	2.918	.105	1.751	2.685	1.560	9.019	261.023			1.831	135.701
21	2.918	.105	1.751	2.416	1.404	8.594	269.617			1.611	137.312
22	2.918	.105	1.751	2.148	1.248	8.170	277.787			1.414	138.726
23	2.918	.105	1.751	1.879	1.092	7.745	285.532				
24	2.918	.105	1.751	1.611	.936	7.321	292.853				
25	2.918	.105	1.751	1.342	.780	6.896	299.749				
26	2.918	.105	1.751	1.074	.624	6.472	306.221				
27	2.918	.105	1.751	.805	.468	6.047	312.268				
28	2.918	.105	1.751	.537	.312	5.623	317.891				
29	2.918	.105	1.751	.268	.156	5.198	323.089				
30	2.918	.105	1.751	.000	.000	4.774	327.863				
TOTAL	87.540	3.150	52.530	116.783	67.860						

ASSUMING-CAPITALIZED INTEREST 87.541 $MILL

CUSTOMER PAY-IN 138.406 $MILL

DEPRECIATION 03.333 %

AD VALOREM RATES 02.00 %

INSURANCE 00.12 %

RATE OF RETURN 09.20 %

TAX RELATED TO RETURN 58.105 %

CALCULATED AT 50% LESS DEDUCTIBLE DEBT

KCPL EXHIBIT NO. 22
SCHEDULE 1
SPONSOR - WHITTAKER

To Stockholders:

The Board of Directors has declared a dividend of 61½ cents per share on the Common Stock of the Company, payable September 20, 1977, to stockholders of record August 31, 1977.

The regular quarterly dividends on the Company's Preferred Stock and an initial dividend of 16½ cents per share to holders of $2.20 Cumulative No Par Preferred Stock of the Company were paid September 1, 1977, to stockholders of record August 12, 1977. The initial dividend covered the period from the date of issue of this stock through August 31, 1977.

EARNINGS AND SALES

Earnings per share on the Common Stock of the Company for the periods indicated were as follows:

	1977	*1976*
Three months ended June 30	$ .28	$ .42
Six months ended June 30	1.29	.95
Twelve months ended June 30	3.75	3.16

Total operating revenues for the twelve months ended June 30, 1977, were $260 million. This compares with $219 million reported last year for the period ended June 30, 1976. Net income for the twelve month period ended June 30, 1977, was $35 million. The comparable figure last year was $26 million. Kilowatt-hour sales of electricity increased 5.3% in the twelve months ended June 30, 1977.

In the first six months of 1977, kilowatt-hour sales of electricity increased 8.5% over the similar period in 1976. Commercial sales had the largest increase with a gain of 9.1%, while industrial sales were up 8.5% and residential sales were up 6.8%. Total operating revenues were up 21.3%. Net income for the first six months of 1977 was $13,484,821, as compared with $8,988,382 for the similar period in 1976.

Net income and earnings available for Common Stock for the three months ended June 30, 1977, declined from the comparable 1976 period principally because of increases in the cost of fuel, additional maintenance expense and higher depreciation accruals which commenced when La Cygne Unit #2 was placed in operation on May 15, 1977. In addition, the Company issued 800,000 shares of new Preferred Stock and 1,100,000 shares of Common Stock which reduced earnings per share of Common Stock in the current period.

SYSTEM PEAK

A new maximum system peak load was registered on August 8, 1977, when the net hour demand reached 1,980.000 kilowatts. The comparable peak in 1976 was 1,920,000 kilowatts. A record daily system load of 37,075,000 kilowatt hours occurred on July 19, 1977, which compares with the 1976 daily load of 36,252,000 kilowatt hours.

FINANCING

On July 21, 1977, the Company sold 800,000 shares of a new series of $2.20 Cumulative No Par Preferred Stock to a group of underwriters headed by E. F. Hutton & Company Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated at $26.65 per share. The shares were reoffered to the public at $27.50 per share. The interest cost to the Company of this issue was 8.26%.

Through the cooperation of the City of La Cygne, Kansas, the Company and Kansas Gas and Electric Company sold $43,880,000 of 5⅞% Pollution Control Revenue Refunding Bonds due August 1, 2007. This issue was utilized to refund $14,000,000 of 6% Pollution Control Revenue Bonds due December 1, 1985, and $25,000,000 of 7¾% Pollution Control Revenue Bonds due December 1, 2005, issued by the City in 1975, the proceeds of which were used in connection with the construction of pollution control facilities at La Cygne Station Units #1 and #2, jointly owned by the companies. Savings to the two companies are estimated at $16,000,000 over the life of the new bonds.

PENDING RATE MATTERS

Hearings have been completed in connection with the Company's applications for retail electric rate increases in Missouri and Kansas. Decisions in these cases are expected shortly. Pending action by the regulatory authorities, the Company's present rates continue in effect.

LITIGATION

Peabody Coal Company has filed a petition for declaratory judgment asking the court to construe certain provisions of several contracts under which it supplies coal to the Company, to reform other provisions of the contracts based on mutual mistake of fact, and to award it actual damages of some $46 million and punitive damages of $150 million. It is the opinion of the Company that the suit is without merit.

PROPOSED NATIONAL ENERGY ACT

There is presently pending before the U. S. Senate a proposed National Energy Act which, in Part E, authorizes the Federal Energy Administration to mandate electric rate designs and exercise responsibility over retail electric utility matters traditionally regulated by state agencies. Part E of S. 1469 would force changes in our customers' life-styles and work habits through Federal interference in many aspects of our operations, including customer billings. Similar provisions already have passed the U. S. House of Representatives in H.R. 8444. The Company has joined with other utilities in forcibly bringing to the attention of the Congress the serious adverse affects and consequences of this proposed legislation on our customers and stockholders.

DOUBLE TAXATION OF DIVIDENDS

The Federal Administration is considering the elimination or reduction of the impact of the double taxation on dividends paid by corporations to individual shareholders. It is the Company's position that Federal income tax relief on dividend income paid to individuals should be provided. This approach is favored over a corporate tax deduction or credit, or more complicated methods for individuals. If you agree, you should write your elected representatives in Washington expressing your support for this tax change.

Robert K. Zimmerman

Chairman of the Board
and President

September 9, 1977

KCPL

Kansas City Power & Light Company

Interim Report

SEPTEMBER 9, 1977

Rec'd. 8

Balance Sheets

	June 30 1977	June 30 1976
	(Thousands)	
ASSETS		
UTILITY PLANT, at original cost	$1,058,907	$924,989
Less: Reserves for depreciation	231,870	206,665
Utility plant, net	827,037	718,324
CURRENT ASSETS		
Cash	6,891	6,761
Temporary cash investments	—	10,312
Special deposits	502	5,707
Receivables, less reserves of $587,000 and $700,000	24,431	19,656
Fuel, at cost (first-in, first-out basis)	27,504	20,975
Materials and supplies, at cost (average basis)	9,994	7,152
Prepayments	1,608	1,151
	70,930	71,714
DEFERRED CHARGES AND NONUTILITY PROPERTY	12,045	7,887
	$ 910,012	$797,925
LIABILITIES		
CAPITALIZATION		
Common stock equity	$ 278,359	$234,414
Cumulative preferred stock	96,316	76,476
Long-term debt	374,456	354,333
	749,131	665,223
CURRENT LIABILITIES		
Notes payable	24,500	—
Current maturities of long-term debt	9,569	29,160
Accounts payable	22,770	15,549
Accrued taxes	(2,645)	7,454
Accrued interest	5,137	4,863
Accrued payroll and vacations	5,710	4,894
Other	5,642	5,380
	70,683	67,300
RESERVES AND DEFERRED CREDITS		
Deferred income taxes	58,515	50,632
Deferred investment tax credit	29,077	12,821
Other	2,606	1,949
	90,198	65,402
	$ 910,012	$797,925

Statements of Income

	3 Months Ended June 30 1977	3 Months Ended June 30 1976	12 Months Ended June 30 1977	12 Months Ended June 30 1976
	(Thousands)			
OPERATING REVENUES				
Electric	$ 59,657	$ 50,691	$256,274	$216,315
Steam heat	658	301	4,155	2,506
	60,315	50,992	260,429	218,821
OPERATING EXPENSES				
Operation	27,060	20,867	101,649	90,407
Maintenance	8,336	6,762	24,429	22,083
Depreciation	7,457	5,646	27,637	22,318
Income taxes				
Payable currently	(13,167)	(811)	(4,655)	3,566
Investment credit (net)	11,024	995	17,826	3,740
Deferred until future years (net)	3,195	1,789	9,827	7,923
Property and other taxes	8,645	7,498	34,085	29,322
	52,550	42,746	210,798	179,359
OPERATING INCOME	7,765	8,246	49,631	39,462
OTHER INCOME AND DEDUCTIONS				
Allowance for funds used during construction	1,853	1,858	8,410	6,991
Other—net of income taxes	(57)	59	(31)	1,649
	1,796	1,917	8,379	8,640
INCOME BEFORE INTEREST CHARGES	9,561	10,163	58,010	48,102
INTEREST CHARGES				
Interest expenses	7,014	6,014	26,486	21,904
Allowance for borrowed funds used during construction — Credit (2)	(1,441)	—	(3,282)	—
	5,573	6,014	23,204	21,904
NET INCOME	3,988	4,149	34,806	26,198
PREFERRED DIVIDEND REQUIREMENTS	1,707	1,242	6,053	4,972
EARNINGS AVAILABLE FOR COMMON STOCK	$ 2,281	$ 2,907	$ 28,753	$ 21,226
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	8,006,433	7,004,870	7,661,613	6,711,536
EARNINGS PER AVERAGE COMMON SHARE	$ .28	$ .42	$ 3.75	$ 3.16
EFFECTIVE INCOME TAX RATE AS REPORTED			40.1%	39.5%

1. The Company follows normalization accounting procedures for the income tax effect of most differences in the time of the recognition of various items for book and tax purposes and for investment tax credits, except to the extent flow-through procedures are required by the state regulatory commissions as described in the Statements of Taxes in the Annual Report to Stockholders.
2. As ordered by the Federal Power Commission, the interest component of the allowance for funds used during construction subsequent to December 31, 1976, is reclassified from other income and deductions to interest charges.
3. These are interim statements subject to year-end audit and possible adjustment.

TELEPHONE PLANT UNDER CONSTRUCTION (CWIP)

Presented by Ed Schaub, Public Affairs Manager
Southwestern Bell Telephone Company, Topeka, Kansas

Definition of Telephone Plant Under Construction (CWIP)

1. The Uniform System of Accounts prescribed by the Federal Communications Commission (FCC) and adopted by the Kansas Corporation Commission (KCC) for telephone companies currently provides that construction costs chargeable to telephone plant accounts should be capitalized, including an amount for "interest during construction" representing the cost of funds used in such projects. These costs are included in CWIP until "completed ready for service".

2. Beginning in January 1978, the System of Accounts will provide for capitalizing only that interest during construction at the prime rate which involves projects expected to be completed beyond one year.

Kansas Corporation Commission (KCC) Treatment

3. The KCC has consistently denied the inclusion of CWIP in a utility's rate base for the reason that it does not represent property which is "used or required to be used in its services to the public" as contained in KSA 66-128. The Commission claims it is constrained from doing so as a matter of interpretation of the law cited above.

TELEPHONE PLANT UNDER CONSTRUCTION (CWIP)

Position of Southwestern Bell Telephone Company

4. Our nation's economy demands growth - growth to provide jobs for the expanding labor force and to maintain our standard of living. To accomplish this, joint efforts on the part of private enterprise and the government are essential. Regulated utilities are obliged to provide the energy and service necessary to meet the demands which growth precipitates.

5. Since utilities do not have the option of waiting until after the factory or subdivision is built to provide services, actual construction must be planned and finished in advance of when the demand will occur.

6. In 1976, Southwestern Bell had total construction expenditures of $102 million, representing numerous projects. By 1981, this figure is expected to hit $200 million. The overall magnitude of such costs is staggering.

7. In its current rate case (Docket 110,941-U), Southwestern Bell has requested the Commission to consider the inclusion of CWIP in the rate base but did not reflect that element in determining its initial revenue requirements because of the court appeal of the Kansas City Power and Light Company.

TELEPHONE PLANT UNDER CONSTRUCTION (CWIP)

8. Southwestern Bell is increasingly concerned about the need for including CWIP in its rate base because:

a) Construction dollars are planned to be invested at an accelerated rate as cited above.

b) Such dollars are irrevocably committed to furnishing telephone service. All customers should bear the cost since they are or will be deriving the benefit from the continuing investment designed to give them the facilities they need when they need them.

c) The Company is in a continuous borrowing position because retained earnings and capital recovery (through depreciation) are inadequate to meet service demands.

d) Investors rightfully demand a fair return on their money - whether loaned or invested in stock. They are not interested in whether the money is used for plant construction, payroll costs, or whatever.

e) Beginning in January 1978, the Bell System will no longer be capitalizing any interest on its construction projects completed in one year or less. For Southwestern Bell in Kansas, this means that over 75% of the plant constructed will <u>not</u> have any interest capitalized while under construction or when subsequently transferred to plant in service. Therefore, when the plant is cut into service, the formerly capitalized interest costs will not be included and the rate base element of plant in service will be lower than in the past from

this cause. Southwestern Bell will, consequently, never be reimbursed for 1978 and subsequent interest costs by the customer, unless special recognition of this problem is given through the regulatory process.

Southwestern Bell's goal is to render good service now - and in the future. This can only be achieved if earnings levels are such that investors will make their money available to us at reasonable rates. Since virtually all borrowed funds are used for CWIP, the real issue is whether investors are entitled to a return while plant is under construction or are not. As a matter of equity, they are entitled to a fair return. To deprive them of this return constitutes a partial confiscation of their investment.

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TESTIMONY PRESENTED SEPTEMBER 21, 1977, TO THE SPECIAL COMMITTEE ON ENERGY PERTAINING TO PROPOSAL NO. 22 "CONSTRUCTION WORK IN PROGRESS" BY CHARLES ROSS

Mr. Chairman and members of the Committee, my name is Charles Ross. I am General Manager of the Kansas Electric Cooperatives, Inc., the state association of all thirty-seven rural electric public utilities which serve electricity to more than 450,000 Kansans. Each of these rural electrics is owned by the consumers it serves, and each has a direct interest in the effects of Construction Work In Progress and how it may be handled for rate-making purposes.

As this Committee is aware, the Kansas Corporation Commission (KCC) has not been allowing the inclusion of "Construction Work In Progress" (CWIP) as a part of an electric utility's retail or wholesale rate base for rate-making purposes. I call to the attention of this Committee that the KCC not only has jurisdiction over all public utilities' retail rates in Kansas, but also has jurisdiction over those wholesale rates of generation and transmission cooperatives in our state. The Federal Power Commission (FPC), however, has the jurisdiction of all wholesale power rates charged for such wholesale power sold by the electric companies in Kansas to REC's and municipal electric systems.

As this Committee is aware, the legality of whether the Kansas Corporation Commission may be legally bound to allow CWIP in rate bases for rate-making purposes is a matter now under consideration by the Kansas Supreme Court. Therefore, it is our opinion that consideration of any action on CWIP by a Legislative body at this time may be premature.

Traditionally, the Federal Power Commission has never allowed CWIP to be included as a part of the rate base for wholesale

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power sales. Under certain circumstances now, however, the FPC may allow the inclusion of some portion of CWIP.

Approximately three years ago the Federal Power Commission held hearings regarding the possibility of changing their rules and regulations to include CWIP in all wholesale power rate bases. At that particular time, on behalf of all Kansas REC's who purchase power at wholesale from one or more of the Kansas investor-owned utilities, I submitted a written statement in strong opposition to the allowance of CWIP by the FPC for rate-making purposes. At that time, we contended and still do, that it would not be fair or proper for the FPC to allow electric utilities to include CWIP in rate bases for sales of wholesale power with such additional CWIP costs to be passed on to Kansas REC's in their wholesale power bills unless the KCC also sanctioned the pass-on of such CWIP by Kansas REC's to their retail consumers. Under such a circumstance, Kansas REC's would be caught in a very real financial trap.

Should, however, the FPC allow the inclusion of CWIP in wholesale rates and should such CWIP costs then be allowed to be passed on by the affected REC's to their consumers through a power cost adjustment factor, while at the same time the Kansas companies were not allowed to include CWIP in their retail rate bases, the REC's consumers would be paying for the inclusion of CWIP while the Kansas companies retail customers would not be subjected to such extra charges.

We can easily argue both the pros and the cons of CWIP and its inclusion or elimination from rate bases. But because this Committee has already heard considerable testimony on such pros and cons, we propose rather to limit our remarks here to those

matters regarding CWIP as it specifically affects Kansas REC's and their consumer members. We just noted one such circumstance which vividly shows that both the FPC and KCC positions on the use of CWIP in rate bases must be one and the same if discrimination among Kansas consumers of electricity is to be prevented.

There's another matter concerning CWIP and its possible consideration in rate bases for rate-making purposes which I call to the attention of this legislative body because it is of considerable importance in regard to the raising of capital for financing additional electrical facilities for Kansas consumers. The investor-owned companies do have a problem in regard to raising adequate construction funds for such new projects. However, these Kansas companies generally have been reluctant to accept joint financing assistance from the REC's in the state. It seems very important that the Legislature, the KCC, and the general public, be assured that the Kansas investor-owned electric utilities indeed consider, in good faith, options available including joint financing arrangements with REC's regarding additional electrical facilities. Kansas REC's are on record with each of the investor-owned electric companies in the state regarding our willingness to work jointly with them to finance our proportionate share of the future electrical facilities needed to serve REC consumers. Such joint financing of new facilities by investor-owned companies and REC's can benefit all Kansas consumers. It's already happening in several areas of the country. This is the principle whereby REC's are now negotiating contract agreements with KGE and KCPL for a joint ownership share of the Wolf Creek Nuclear Plant. Some state public service commissions have mandated that the electric companies in their

respective states first explore the viable potentials of such joint financing with REC's when the matter of the possible inclusion of CWIP in rate bases has come before such commissions. We suggest that this is a principle that should be considered in the financing of all future facilities that may be constructed in Kansas because it's in the public interest.

Now, we're aware that this Committee is not here to consider Ad Valorem Tax matters, but we think it is important that you be aware that all Kansas investor-owned electric utilities, as well as Kansas REC's, pay Ad Valorem Taxes on their properties. These properties are state assessed. The Department of Revenue, through the Division of Property Valuation, by state law, includes "Construction Work In Progress" (CWIP) in plant values for valuation purposes of these electric utilities. Therefore, electric public utilities are required to pay Ad Valorem Taxes annually on any construction work they have in progress during a particular year. But, these same electric public utilities are not presently allowed to earn revenue on any such construction work they may have in progress. This circumstance appears to be discriminatory and unfair and we believe it is a matter that should be considered by this Legislative Committee in its deliberations regarding CWIP.

In summary, we suggest that the general public deserves to be assured that all of the Kansas investor-owned public utilities and Kansas REC's are indeed working together in good faith in coordinated planning efforts and joint financing arrangements to provide for the future electrical facilities needed to meet the power requirement demands of Kansas consumers. We suggest this is a matter which the State Legislature may wish to address. We

.irmly believe such a principle of coordinated cooperation among these public electric utilities is materially beneficial to the consuming public.

We recommend that the Legislature at this time take no action regarding the CWIP matter due to the fact that the legal standing of the KCC disallowing CWIP in rate bases for rate-making purposes has been challenged and is presently under consideration by the Kansas Supreme Court. We suggest that the Legislature can more appropriately address itself to the matter of CWIP once the court has rendered its decision in regard to the legal authority of the KCC under present statutes.

We further recommend that in fairness to all Kansas consumers a formula of uniformity must exist in the treatment of CWIP by Kansas regulations that are comparable to Federal Power Commission regulations.

We also suggest that the Legislature may want to review present state statutes which require Construction Work in Progress to be assessed as real property for Ad Valorem Tax purposes for REC's and the electric companies in Kansas, while the same Construction Work In Progress is not at this time also allowed to be included in rate bases for rate-making purposes and the earning of revenue.

We recognize that the Legislature has within its prerogatives the right to legislatively sanction or deny the inclusion of CWIP in rate bases for rate-making purposes. In whatever action the Legislature may take at any time regarding this matter of CWIP, we respectfully request that such action clearly direct that the Kansas State Corporation Commission be given the sole responsibility of implementing the Legislature's mandate. We strongly and very sincerely recommend that all rate-making procedures involving electric public utilities be retained solely under the jurisdiction of the KCC. To allow

ny other procedures would cause a duplication of effort and expens and would result in an untenable position for the electric utilities and the general public.

Mr. Chairman and members of the Committee, thank you for this opportunity to express our thoughts regarding CWIP. I will attempt to respond to any questions as requested.

TESTIMONY OF

WILLIAM L. BRYANT
VULCAN MATERIALS COMPANY, CHEMICALS DIVISION

BEFORE THE
SPECIAL COMMITTEE ON ENERGY
OF THE
KANSAS LEGISLATURE

PROPOSAL NO. 22
CONSTRUCTION-WORK-IN-PROGRESS

Atch. 11

Introduction

My name is William L. Bryant. I am an assistant to one of the Vice Presidents of the Chemicals Division of Vulcan Materials Company. Vulcan Materials Company is the nation's leading producer of construction aggregates, secondary aluminum and detinned scrap steel. The Chemicals Division manufactures chlorine, caustic soda, muriatic acid, and a diversified line of chlorinated solvents. Our Wichita Plant employs over 600 people, and is the largest chemical plant in Kansas. The Wichita Plant is the biggest electric power customer in the State and also consumes a significant amount of natural gas.

The chemical processing industry is one of the most energy-intensive industries, accordingly energy costs are a major component of chemical manufacturing costs. For Vulcan Materials Company, energy cost is the largest component of manufacturing cost. For that reason we are vitally concerned with energy costs in Kansas, hence in any decision that will directly affect energy costs - such as whether or not Kansas utilities should be allowed to include Construction Work in Progress (CWIP) in the utility rate base for the purpose of setting fair and reasonable rates.

CWIP Should Not Be Allowed In Utility Rate Base

In an attempt to demonstrate the need for CWIP in rate base, the utilities generally advance these reasons for inclusion of CWIP in rate base:

1. Improve the quality of earnings of the utilities.
2. Improve the ability of the utilities to obtain financing for their construction programs.
3. Improve the cash flow of the utilities to meet cash needs during their construction programs.
4. Mitigate the effect of rate increases on the rate payers of the utilities.

For each of these arguments there are clear and valid arguments in opposition.

With regard to improving the quality of earnings of the utilities or enhancing their ability to obtain construction financing (1 and 2 above), the issues are much more complex than simply deciding whether or not to allow CWIP in utility rate base. At each utility rate hearing a considerable amount of time and testimony is devoted to decisions that affect quality of earnings and that will lead to a fair rate of return that will allow the utility to maintain its financial integrity and attract additional capital from the money markets at the most advantageous cost to both the utility and its rate payers.

With regard to the arguments regarding cash flow and mitigating the effect of rate increases on rate payers, there are other valid alternatives available to utility regulatory agencies, such as the Kansas Corporation Commission, that allow the regulatory agencies to assist utilities in finding solutions to these problems, without resorting to the inclusion of CWIP in rate base.

There are several specific points that should be considered in attempting to decide whether or not CWIP should be allowed in utility rate base. I offer the following enumeration:

1. Kansas utilities are able to capitalize "AFUDC" on their construction programs during construction and thereby recover their capital costs over the life of the property added to rate base.

2. Inclusion of CWIP begs several vital questions -
   a. Who causes the need for new plants?
   b. Who reaps the benefits of future utility plant, today's ratepayer or tomorrow's ratepayer?
   c. Who should pay for the benefits of future utility plant, today's ratepayer or tomorrow's ratepayer?
   d. What is the effect on the cost per customer?

3. Inclusion of CWIP in rate base effectively shifts the risk of utility construction programs from the utility stockholders to the ratepayers.

AFUDC

(Allowance for funds used during construction.)

During the construction period when the CWIP is not in the rate base, the utility is not earning a rate of return on their investment. The reasoning for not including CWIP in rate base is based on it not being "used and required to be used" to provide service to the ratepayer (used and useful theory). On the other hand it is recognized that the expense of financing construction to serve customers is itself a legitimate expense which must be ultimately borne by the ratepayers. By the institution of AFUDC the financing costs of construction programs are added to the cost of the plant, which then is paid by the ratepayers in the form of depreciation and rate of return on the additional plant (rate base). The ratepayers do not avoid payment of financing costs.

AFUDC has been allowed for quite some time by the Kansas Corporation Commission in utility rate cases. This is also the approach favored in most other states.

Questions of Ratepayer Responsibility

What is the cause for utility construction programs? There are basically two general reasons for the large construction programs that utilities are undertaking currently: (1) to meet future customer requirements - (growth in customers served, unit sales and peak demands), and (2) to replace worn-out or obsolete plant - (including plant obsoleted because of fuel availability or environmental considerations). Today's ratepayer should not be forced to pay for plant that is being constructed to serve the future customer. Through each time period the ratepayer should be required to pay for the plant that is serving him and neither more nor less than that cost.

Does inclusion of CWIP in rate base force today's ratepayer to pay for tomorrow's utility plant? The answer is yes. Who is the beneficiary of current

utility construction programs? Tomorrow's ratepayer reaps the benefits of today's construction, because the plant is being constructed to meet his needs and the economic conditions he faces. If there are economies of scale or technological improvements, the future ratepayer is the one who receives such benefits. Correspondingly, if the cost of future service is more expensive, then the future ratepayer should also bear the burden.

There is also the question of matching the costs and benefits of utility construction programs. The ratepayers who receive the benefits from the utility construction programs should properly also bear the costs of the programs. The costs associated with CWIP bear no relationship to current sales and result in an improper matching of costs to service benefits when determining current revenue requirements in a rate proceeding. When a utility invests in plant, it expects that plant to have a productive capability. That productive capability will not be realized until the plant is completed and dedicated to service. If the ratepayer is going to be asked to pay for the costs of the plant, he is certainly entitled to some recognition of the productive capability of that plant when his rates are set. Obviously, if the plant is not in service, there are no actual revenues to consider. But if CWIP is in rate base there are real costs to him (the ratepayer) and that is where the mismatch comes in

Finally one must consider the impact of inclusion of CWIP in rate base on the cost per customer. The usual argument that is advanced is that it costs the ratepayer more in the long run to exclude CWIP from the rate base. However, it must be borne in mind that increasing numbers of customers and usage tends to mitigate the impact of the additional costs. Furthermore, the ratepayer who discontinues service today will never enjoy the benefits of the future plant he has already paid for if CWIP is included in the rate base.

Shifting the Risk

The inclusion of CWIP in the rate base shifts the risk from the equity stockholder of a utility to its ratepayers. The ratepayer becomes immediately responsible for all costs of the construction program with addition of CWIP to rate base, and the equity holder has reduced his risk by making the ratepayer responsible both for the construction program and the current operation of the utility.

Conclusion

Public utilities are, in fact, regulated monopolies, with what amounts to a guaranteed return on investment. A business in the private sector builds a new plant without any assurance of a return on its investment, or even that the product made in the new plant can be sold. By contrast, a public utility is assured by the regulatory agency that supervises its operations that, when the plant becomes used and useful, the output of that new plant can be sold and sold at a profit. This is true even if the operating rate of the new plant is nearly zero, because the plant enters the rate base when it has become used and useful. A rather enviable position.

In my opinion, to allow public utilities to include CWIP in rate base removes most, if not all, of the economic incentives that now exist to motivate public utilities to build only the plant that is needed, to monitor and control construction costs, and to ensure that utility construction projects proceed as expeditiously as possible. And this would come at a time when public utilities are embarking on construction programs of unprecedented magnitude. From a ratepayer's point-of-view it is the worst of all possible times to allow inclusion of CWIP in rate base.

M E M O R A N D U M

To: Special Committee on Energy

From: Mary Torrence, Assistant Revisor of Statutes

Date: September 13, 1977

Enclosed is a copy of each of the following:

1. A proposed bill requiring the secretary of administration to adopt a system of flexible work hours for state employees (7 RS 1631).

2. A proposed bill which incorporates heat pumps into the law providing tax incentives for installation of solar systems (7 RS 1632).

3. A proposed bill requiring transfer of all standard-equipped state passenger vehicles to the state motor pool (7 RS 1633). This includes standard-equipped highway patrol passenger vehicles which are currently exempted from the law which permits (but does not require) transfer of passenger vehicles to the pool.

4. A proposed bill establishing maximum heat loss standards for buildings (7 RS 1635). This draft follows the standards mandated by the state corporation commission order, but does not include the air change standards or the energy efficiency standards for air conditioners and heat pumps that were contained in that order.

5. The Missouri law establishing motor vehicle registration fees based on horsepower. No proposed bill on this subject has been drafted because there appear to be no records of the horsepower of cars registered in Kansas.

Please bring these materials with you to the next committee meeting.

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PROPOSED BILL NO. _____

By Special Committee on Energy

AN ACT directing the secretary of administration to adopt and implement a system of flexible work hours and other variations in workday and workweek schedules for state employees.

Be it enacted by the Legislature of the State of Kansas:

Section 1. (a) The secretary of administration is hereby authorized and directed to adopt rules and regulations establishing and providing for the implementation of a system of flexible work hours and other variations in workday and workweek schedules for state employees. In the development of such system, the secretary shall take into consideration the impact of the system on the efficiency of governmental operations, service to the public, energy consumption and employment of personnel.

(b) The secretary of administration is hereby authorized to employ, within the limitations of appropriations therefor, such management, legal and financial experts and other employees as the secretary deems necessary for the establishment and implementation of a system pursuant to this section.

Sec. 2. This act shall take effect and be in force from and after its publication in the statute book.

PROPOSED BILL NO. _____

By Special Committee on Energy

AN ACT relating to the taxation of income; providing incentives for the acquisition or installation of heat pumps; amending K.S.A. 79-32,169 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 79-32,169 is hereby amended to read as follows: 79-32,169. As used in this act:

(a) "Heat pump" means a device which is capable of both heating and cooling a space by operating on the ordinary mechanical refrigeration cycle.

~~(a)~~ (b) "Solar energy system" means ~~either~~ a solar system, heat pump or a wind system.

~~(b)~~ (c) "Solar system" means a system of apparatus and equipment capable of collecting and converting incident solar radiation into heat, mechanical or electrical energy and transferring these forms of energy by a separate apparatus to storage or to point of use (including, but not limited to, water heating, space heating or cooling, electric energy generation or mechanical energy generation).

~~(c)~~ (d) "Wind system" means a system of apparatus and equipment capable of intercepting and converting wind energy into mechanical or electrical energy and transferring these forms of energy by a separate apparatus to the point of use or storage.

Sec. 2. K.S.A. 79-32,169 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

PROPOSED BILL NO. _____

By Special Committee on Energy

AN ACT concerning state vehicles; requiring transfer of certain passenger vehicles to the state motor pool; limiting acquisition of passenger vehicles by certain state agencies; amending K.S.A. 75-4603 and 75-4609 and repealing the existing sections; also repealing K.S.A. 75-4613.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 75-4603 is hereby amended to read as follows: 75-4603. (a) (1) The secretary of administration may direct any state agency to transfer to the department of administration, for the central motor pool or any branch thereof, any ~~motor vehicle~~ truck currently assigned to or owned by such state agency ~~for the central motor pool or any branch thereof~~. Any such direction shall specify a date when possession of and title to any such ~~motor vehicle~~ truck shall be delivered to the department of administration.

(2) The provisions of this subsection shall not apply to trucks of the highway patrol or to trucks of any other state agency which, in the opinion of the secretary of administration, are specially equipped for the needs of such state agency.

(b) (1) On the effective date of this act, each state agency, except the governor, shall transfer to the department of administration, for the central motor pool or a branch thereof, all passenger motor vehicles assigned to or owned by such state agency.

(2) The provisions of this subsection shall not apply to specially equipped passenger motor vehicles purchased in accordance with K.S.A. 75-4609 and amendments thereto.

(c) To the extent that funds are available therefor, the secretary of administration may purchase or otherwise acquire in

the manner provided by K.S.A. 75-3739 and amendments thereto additional motor vehicles as may be necessary for the central motor pool or any branch thereof. In the manner provided by ~~said~~ K.S.A. 75-3739, the secretary of administration may sell or otherwise dispose of any vehicle in the central motor pool or any branch thereof, and any cash proceeds arising therefrom shall be deposited in the state treasury and credited to the motor pool service fund. The title to all motor vehicles assigned to or purchased or acquired for the central motor pool or any branch thereof shall be in the name of the department of administration, except motor vehicles acquired by lease.

Sec. 2. K.S.A. 75-4609 is hereby amended to read as follows: 75-4609. From and after the effective date of this act, no state agency, except the governor, shall lease, purchase or otherwise acquire any passenger motor vehicle, except under the following conditions: (a) Moneys for the purchase of such passenger motor vehicle are included within funds appropriated for the state agency and the purchase, lease or other acquisition has been approved by the secretary of administration, and

(b) the passenger motor vehicle ~~has, in the opinion of the secretary of administration, only~~ is equipped with special systems ~~and~~ or equipment which are not customarily incorporated into a standard passenger motor vehicle completely equipped for ordinary operation~~, or is equipped with additional systems or equipment~~ and which are found by such secretary to be appropriate in the particular purchase, and

(c) the purchase, lease or other acquisition price of the passenger motor vehicle, exclusive of ~~any~~ such ~~additional~~ special systems or equipment, is not in excess of such amount as may be available from funds appropriated for such agency.

Sec. 3. K.S.A. 75-4603, 75-4609 and 75-4613 are hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

PROPOSED BILL NO. _____

By Special Committee on Energy

AN ACT establishing maximum heat loss standards for certain buildings; requiring certification of compliance to certain utilities; prescribing penalties for violation.

Be it enacted by the Legislature of the State of Kansas:

Section 1. As used in this act, unless the context otherwise requires:

(a) "ASHRAE handbook of fundamentals" means the handbook of fundamentals published in 1972 by the American society of heating, refrigeration and air conditioning engineers.

(b) "Building" means any structure which is heated or cooled except:

(1) Structures which have a peak design rate of energy usage, for all purposes, of less than one watt (3.4 B.T.U.'s per hour) per square foot of floor area;

(2) structures which are owned or leased by the United States; and

(3) mobile homes.

(c) "Existing building" means any building of which the foundation has been completed prior to the effective date of this act.

(d) "Heated space" means space within a building which is provided with a positive heat supply having a connected output capacity in excess of ten (10) B.T.U.'s per hour per square foot.

(e) "New building" means any building of which the foundation has not been completed prior to the effective date of this act.

(f) "Utility" means any gas or electrical utility.

Sec. 2. (a) From and after the effective date of this act, each new building in this state shall be constructed in such a

manner that the total heat loss of such building, based on the ASHRAE handbook of fundamentals, does not exceed thirty-five (35) B.T.U.'s per hour per square foot of floor area of heated space.

(b) No utility shall connect or attach service to any new building in this state until the builder certifies to the utility that such building complies with the standard set forth in subsection (a).

Sec. 3. (a) From and after July 1, 1979, no title to an existing building in this state shall be transferred unless the total heat loss of such building, based on the ASHRAE handbook of fundamentals, does not exceed thirty-five (35) B.T.U.'s per hour per square foot of floor area of heated space.

(b) No utility shall furnish service to any existing building in this state to which title is transferred on or after July 1, 1979, until the owner certifies to the utility that such building complies with the standard set forth in subsection (a), except that a utility may furnish such service if a previous owner has certified to the utility that the building complies with such standard.

Sec. 4. Violation of any provision of this act is a class ____ misdemeanor.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.

ther provided that the director might destroy all applications for registration of motor vehicles and dealers but that the applications for registration of chauffeurs, registered operators and certificates of ownership should be preserved as permanent records. This provision as to records conflicted, in part, with Laws 1945, page 1222, section 1, which authorized the destruction of various records of the office.

Section 8368, as re-enacted in 1947, and Laws 1945, page 1222, section 1, therefore, was repealed and sections 301.040 and 301.360 enacted eliminating the conflict by giving effect to the 1947 enactment and harmonizing the two sections:

Cross References

Plates manufactured by state prison board, see § 301.290.

Library References

Automobiles ⇐39, 82. C.J.S. Motor Vehicles §§ 92, 101 et seq.

301.050. Registration fees—penalty for delinquency

All registration fees shall be payable to the director of revenue and shall accompany the application for registration. A penalty fee of two dollars shall be paid on all delinquent registrations.

(L.1947 V. I p. 380 § 8369c; L.1953 p. 567 § 1)

Historical Note

The 1953 amendment deleted most of the second sentence which related to computation of fees during the 17 months' period commencing Jan. 1, 1949 and ending May 31, 1950.

Cross References

Farm tractors exempt, see § 304.260.
Motor vehicle registration fees to be collected by state collector of revenue, see § 136.030.

Library References

Automobiles ⇐45, 57, 97, 108. C.J.S. Motor Vehicles § 133 et seq.

301.055. Annual registration fees—motor vehicles other than commercial

The annual registration fee for motor vehicles other than commercial motor vehicles is:

Less than 12 horsepower	$ 5.50
12 horsepower and less than 24 horsepower	9.00
24 horsepower and less than 36 horsepower	11.50
36 horsepower and less than 48 horsepower	20.50
48 horsepower and less than 60 horsepower	25.50
60 horsepower and less than 72 horsepower	32.00

72 horsepower and more 38.00
Motorcycles 6.50
Motortricycles 8.00

(Added by L.1969 p. 411 § 1)

Historical Note

Laws 1969, 411, § 1, repealed sections 301.020, 301.060, 301.080, 301.110, 301.130, 301.137, 301.150 and enacted in lieu thereof sections 301.020, 301.055, 301.057, 301.059 (re-numbered as 301.058), 301.060 (re-numbered as 301.059), 301.061, 301.063, 301.065, 301.067, 301.069, 301.080, 301.110, 301.130, 301.137 and 301.150.

Section A of same Act, dropped by the Revisor of Statutes, provided that the department of revenue shall issue the license plates as provided under the Act no later than January 1, 1971.

Subject matter of this section was derived from section 301.060, RSMo 1959, subdivision (1).

Cross References

Penalty for violation, see § 301.440.

Notes of Decisions

I. Construction and application

The registration fee is a tax upon the privilege of operating motor vehicles upon the state highways. Transport Rentals, Inc. v. Carpenter (Sup. 1959) 325 S.W.2d 745.

Automobile registration fee is not tax on property but on privilege of operating vehicles on highways. Law providing for automobile registration fee is revenue measure. State ex rel. McClung v. Becker (1921) 233 S.W. 54, 288 Mo. 607.

The department of revenue has the right and duty to collect the fees for motor vehicle registration as provided in this section and § 301.130, regardless of whether one or two license plates are provided pursuant to said laws; and while the department must collect the increased fees, it need not provide two license plates until January 1, 1971. Op Atty.Gen. No. 488, King, Jr., 11-25-69.

A person who is not a farmer, operating on a local commercial vehicle license, may not, by changing the operating address required to be conspicuously displayed on the vehicle or by any other means, legally operate outside of more than one municipality of operation and its 25 mile radius during the licensed period. Op.Atty. Gen. No. 364, Hockaday, 10-16-69.

301.057. Annual registration fees—property-carrying commercial vehicles (not including property-carrying local commercial vehicles)

The annual registration fee for property-carrying commercial motor vehicles (not including property-carrying local commercial motor vehicles) based on gross weight is:

6,000 pounds and under $20.50
6,001 pounds to 12,000 pounds 30.50
12,001 pounds to 18,000 pounds 50.50
18,001 pounds to 24,000 pounds 80.50

SENATE BILL NO. _____

By Senator Berman

AN ACT relating to public utilities; prohibiting the consideration of certain expenses in determining rates and other charges thereof.

Be it enacted by the Legislature of the State of Kansas:

Section 1. (a) Whenever any public utility, as defined by K.S.A. 1977 Supp. 66-104, makes application to the state corporation commission for a change in its rates or other charges, the commission, in arriving at a determination of rates or other charges that are fair, just and reasonable both to the utility and the public, shall not consider expenses incurred or to be incurred by said utility for: (1) The costs of any newspaper, magazine, outdoor sign, radio, television or other advertising; (2) the cost of any entertainment or lobbying provided by such public utility including, but not limited to, dues to any private club, costs of meals or beverages for any individual other than an employee of such public utility or costs of any gifts given to persons not employed by such public utility; (3) that portion of any officer's or employee's salary from such utility which exceeds the statutory salary of the governor of this state; (4) the costs of preparing an application for a change in its rates or other charges including the costs of any hearing or rehearing thereon and any appeals taken from any decision or order of the commission; (5) the payment of assessments against such public utility for the amount of expenses incurred by the commission in connection with investigations, appraisals or hearings required of the commission by law.

(b) None of the expenses designated in subsection (a) shall be considered as valid operating expenses in computing a

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reasonable rate of return for said utility.

Sec. 2. This act shall take effect and be in force from and after its publication in the official state paper.

Testimony before the Special Committee on Energy
of the Kansas House and Senate

September 22, 1977

John A. Nordin
Professor of Economics
Kansas State University

Kansans can save energy by making the price of electricity relatively high at times when it is produced at a relatively high energy cost.

Electricity is relatively inexpensive to produce when the demand for it is light, as it is at night. At that time, the utility need use only its steam turbine generators, burning coal at a low energy cost per kilowatthour. On the other hand, electricity is expensive to produce when the demand for it is heavy, since then the utility must add gas turbines burning oil at a high energy cost per kilowatthour.

The high energy cost period is also the high cost period when both energy cost and capital cost are taken into account. For our purpose, "high cost period" and "high energy cost period" can be used interchangeably.

The time when a person uses electricity determines the cost of producing it, and so should determine its price. I shall outline a "time-of-use" pricing system determining prices on this basis.

For convenience in exposition, let the hours in a year be divided into just a period of high cost per kilowatthour and a period of low cost per kilowatthour. (It would be possible to divide them into three periods, alternatively.)

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A customer will have two kilowatthour registers, and remote control will be used to switch between them. The register associated with the high cost period will record only during that period, and the kilowatthours registered on it will be paid for at a relatively high price. All other kilowatthours will be paid for at the relatively low price of the low cost period. By looking at his registers, a customer can see whether the high-price rate schedule is in effect.

The customers will be divided into customer classes, mainly on the basis of the amounts of their annual use of electricity. For each customer in a given class, a month's kilowatthours over 100 kilowatthours per month may be paid for at 12¢ per kilowatthour in the high cost period; and a month's kilowatthours over 150 kilowatthours may be paid for at 2¢ per kilowatthour in the low cost period. The figures 100 and 150 are illustrative, and will vary among customer classes. The figures 12¢ and 2¢ are illustrative costs of producing the last kilowatthours in the two periods, in a new plant. Such figures give the customers valid signals concerning the current cost of using additional resources to meet expanding demands for electricity.

The relatively high price for the last kilowatthours in the high cost period will motivate customers to reduce their total use of electricity, and to shift some of their remaining use from the high cost period to the low cost period.

We must still determine the prices for the first block of 100 kilowatthours per month in the high cost period, and the first block of 150 kilowatthours per month in the low cost period (in the example above). We will select these prices in such a way that they will accomplish two essential purposes: first, to make total collections equal total cost plus allowable return (that

is, under current conditions, to prevent the utility from collecting excessive revenue); second, to divide the annual capital cost of the generators fairly between the groups of customers who use them in the two periods.

"Fairly" refers to the judgments of the State Corporation Commission, on the basis of their understanding of the intent of the legislature. For example, the Commission might want the annual capital cost of each kilowatt of generator capacity to be divided between the two groups in proportion to their hours of use of the kilowatt of generator capacity.

The high cost period will exist whenever the rate of use of electricity exceeds a preselected level. With a possible exception mentioned below, customers will not know the exact time when a group of high cost hours will end, although they will be informed of, say, the two-hour interval during which this change is expected to take place. Customers will vary with respect to the time elapsing before they notice that the high-price rate schedule is no longer in effect. Thus there will not be a surge of use at the end of a high cost period. (A surge might create a new problem in use of equipment.) Moreover, if the level of use rose rapidly, returning the plant to the high cost period, the high-price rate schedule would be reinstated automatically, and some customers would reduce their rates of use.

The "possible exception" referred to above is this: if an industrial customer wants to schedule his operations unusually precisely, he can be given a specific schedule of hours. To hold down the risk of a surge of demand, his high-price period can end slightly after the time when the high cost period is expected to end.

The system outlined provides time-of-use pricing that motivates customers to conserve energy, avoids overcollection, deals fairly with customers in the

two cost periods, and minimizes the danger of a surge of demand at the end of a high cost period.

Time-of-use pricing can be used immediately to create energy savings in the cases of industrial, commercial, and irrigation customers. It can also be used immediately to create energy savings in the case of large residential customers. Experience with these customers can guide the extension of time-of-use pricing to smaller customers. Some customers' uses may be too small to justify use of remote control equipment. We can assume that these small customers divide their consumption between the two periods in the same proportions observed for their customer class, or for the customer class using remote control equipment and having the smallest total annual consumption. If the legislature or the Commission wants to benefit the smallest customers, they can be assumed to take an unusually high fraction of their electricity in the low cost period, and so will pay a low average price per kilowatthour.

Time-of-use pricing can be used especially easily for wholesale customers, since the wholesalers' metering cost per kilowatthour will be very low.

A Rural Electric Cooperative or municipality buying electricity at wholesale can use time-of-use pricing to reduce its cost, even if the wholesaler does not use it. If the distributor's heaviest use of electricity has come at a time different from the time of heaviest total use of the wholesaler's generators, then, in moving kilowatthours away from his own period of heaviest use, he may move some of them into the period of heaviest total use of the wholesaler's generators, thereby increasing the wholesaler's cost while reducing his revenue.

This possibility gives wholesalers a pocketbook reason for considering time-of-use pricing, which guarantees that cost-saving actions by distributors will also reduce the wholesaler's cost.

Mainly for industrial users, the electric utilities have tried to reduce use in high cost periods. The expedient still used by most of them was adopted before remote control of meters was feasible, and, therefore, at a time when prices could not be based logically on costs.

In this expedient, which is connected with the use of "demand charges" and "ratchets," an industrial customer pays a high average price if his hourly rate of use varies greatly over a year. If his heavy use always came at the time of heaviest use by all customers taken together, such an arrangement would be proper. But often this is not the case; there is considerable diversity among industrial customers' times of heaviest use.

The current demand charge expedient is not used for residential customers, and so gives them no motivation to conserve energy. If it were inexpensive enough for residential use, in many cases it would be counterproductive. For example, for twenty-five years Europeans have successfully used heat-storing electric furnaces. Special magnesite bricks are heated to about 1000° F during the night, then during the day the only electricity used for heating is the small amount used for a fan to circulate heat. A customer with such a furnace would pay a high average price if the current demand charge expedient were used, since his hourly rate of use varies greatly over a year. He uses most of his electricity in the middle of the night in winter, when the cost per kilowatthour is low. He is an ideal customer, and should pay a low average price, as he would under a time-of-use pricing system.

Thus the current demand charge expedient cannot motivate customers to conserve energy, since it does not base the price of a kilowatthour on the cost conditions at the time when it is produced. The present demand charge expedient is obsolete.

In addition to being economical taken by itself, time-of-use pricing can be economically combined with "load control," i.e., remote control of at least electric irrigation motors and water heaters. For example, during an hour in the high cost period each water heater might be kept off for 12 minutes, on a rotating basis.

For the area north of 37.5° latitude / (including almost all of Kansas) I have estimated for just electric clothes washers and dryers and electric water heaters the annual net savings associated with time-of-use pricing and load control after the annual costs of needed extra equipment are taken into account. For time-of-use pricing alone, and for a clothes washer and dryer alone, the estimated annual net saving is $10 to $13 per year per customer. With time-of-use pricing for the washer and dryer, and load control for a water heater, the estimated annual net saving is $38 to $42 per year per customer. Additional residential savings are available for air conditioners, dishwashers, and other appliances.

Significant energy savings can also be made in industrial, commercial, and agricultural uses of electricity. A 1977 study by the Rand Corporation for the California State Energy Resources Conservation and Development Commission estimates that the potential response to time-of-use pricing would cause a 33 to 45 per cent reduction in use of electricity by 18 California industries during the 4-hour period of highest cost per kilowatthour. (See the reference below.)

It is clear that irrigation is a crucial source of energy savings in Kansas, since irrigation water can be pumped during the low cost times in a day. Its extensive use of irrigation may make Kansas one of the states that can gain most from time-of-use pricing combined with load control.

The relation between state and federal regulation of utilities will be affected by the states' responses to the need for reform of electric rate schedules. (The U.S. House of Representatives has already passed a bill that would require time-of-use pricing.)

Even if there were no energy crisis, time-of-use pricing would create significant savings for the customers. Under current conditions, requiring electric utilities to adopt the basic time-of-use principle will make an essential contribution to saving energy.

REFERENCE

1. Mitchell, Bridger M., Manning, Jr., Willard G., and Acton, Jan Paul, Electricity Pricing and Load Management: Foreign Experience and California Opportunities, R-2106-CERCDC, p. 75, Santa Monica, Rand Corporation, March 1977.

STATEMENT TO THE SPECIAL COMMITTEE ON ENERGY RE PROPOSAL NO. 20 9/22/77

My name is Frank G. Ross. I am General Manager of Ross Industries-Dept. of Cargill, Inc., Wichita, Kansas. I am also President of the Wichita Area Chamber of Commerce, and I appear here today to represent both my company and the Wichita Area Chamber of Commerce.

Many of us in the state are not well informed about the possibilities and the alternatives of an inverted rate structure for Kansas utility customers, but I believe that the concept is considered so impractical that it is astounding that it is even being considered by the Kansas Legislature.

I understand that it has at least two major reasons for being proposed: (1) to encourage conservation of our energy resources and, (2) to give low income consumers a reduced cost of energy. There may be other reasons, but I have read of those two.

I believe that it would not encourage conservation, but would merely transfer energy consumption to another state - which did not have an inverse rate structure. I believe that the inverse rate structure would be highly inflationary to the detriment of low income consumers. It would be a crippling blow to industrial development of both present and new industries of Kansas, but above that, it would be an unfair burden on small business and rural customers. I'm not sure who would be exempt, but it could increase the cost to hospitals, schools, and at least indirectly local government units.

I have just compared my company's utility bill for last January to this past August. I used 3% less electricity and my bill was 26% higher. Using a sample inverted rate structure, the bill would have

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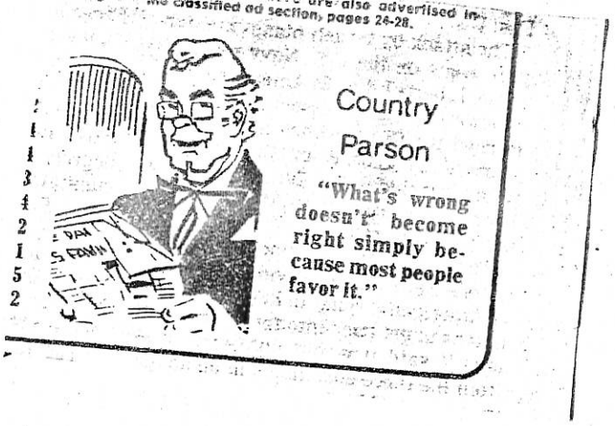
been even higher, an additional 17%. Industries already have plenty of incentive to become more efficient users of energy. Each industry is already under a federally mandated guideline to become more efficient and we are. In fact I would bet that business and industry have a better record of energy conservation than any other group in general. An inverted rate structure has the effect of penalizing use, not inneficiency. As an exaggeration I would suggest that 100 flour mills of sufficient size to supply our needs would be a more efficient use of our energy resources than 10,000 small flour mills each using less electricity per unit.

All Kansas agribusiness would be affected. Kansas products are sold throughout the United States and the world. Kansas producers and manufacturers compete with producers and manufacturers in all the other states. If we impose a burden on Kansas that is not imposed equally on other states the disadvantage is obvious. A Kansas grain elevator with higher costs than his Oklahoma competitor must recover that cost with a lower price to the farmer to remain competitive. A flour mill outside Kansas will be the beneficiary of our lessened ability to compete.

An increase in cost without an accompanying increase in productivity is inflationary. These costs must be passed on to the consumer, and the low income consumer is the immediate victim of inflation.

The inverted rate structure could not be imagined to improve the economic climate of Kansas and would probably have a direct affect on that vitality that has provided Kansas with a lower unemployment rate than other states and nationwide.

I sincerely hope that you will decide to drop all consideration of this proposal for inverted rate structures.



9-22-77

Comments by John Bower on a proposal for an inverted rate structure for electric utility service

1. The Kansas Corporation Commission is doing a good job protecting the public interest under the common sense principle that the price should represent the cost of providing the service. Rates go down as use goes up because it costs less per unit to deliver a lot at one point.

Setting prices for some other purpose than fair distribution of costs would disrupt our whole economic system, hurting most those it is proposed to help.

2. It would fail as a conservation measure, because a customer's use of electricity is not a measure of his use of energy.

A "small user" may be a weekend cabin at Perry Lake.

An "all electric" home would be a large user.

Industries would generate their own electricity if the price were rigged above production costs. They would burn scarce oil and gas.

We should encourage, not punish, conversion to central generating station power, for the most efficient use of coal and nuclear energy.

3. "Soaking business" is neither desirable nor successful.

Higher costs would and must be passed on to consumers.

Present industry would become less able to compete.

New industry would go to states where common sense prevails.

Either way, job opportunities and income would be lost in Kansas.

4. It would be especially hard on farm families, which are large users of electricity.

The electric motor has done more than the tractor to reduce drudgery on the farm.

As fuels become scarce and more expensive, farm use of electricity will and should increase.

Since the farmer competes with the whole world, there is no way he could pass on artifically rigged costs.

5. It would be a misuse of state authority.

We did not elect you to tell us how much energy we should use, nor in what form. We elected you to make laws which will keep the game honest.

The present "crisis" was made in Washington. It is the natural result of robbing producers for the supposed benefit of consumers.

There is no shortage of energy--only of cheap energy. If prices represent true costs, people are quite competent to decide for themselves what to use and how much of it.

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TESTIMONY OF EDWIN C. WARREN
BEFORE THE
SPECIAL INTERIM COMMITTEE ON ENERGY
KANSAS STATE LEGISLATURE
ON THE MATTER OF
ALTERNATE UTILITY RATE STRUCTURES
SEPTEMBER 22, 1977

INTRODUCTION

I am Edwin C. Warren, a resident of Kansas City, Kansas.

My appearance before this Committee is at the invitation of Mr. Raymond Powers of the Legislative Research Department. The scope of my prepared testimony relates to electric utility rate structures and their variations as to form and purpose. I have considerable professional experience in electric utility ratemaking and have been engaged by public utility systems in a number of states to study and design rate structures.

QUALIFICATIONS AND EXPERIENCE

For the past 30 years, I have been employed by the firm of Black & Veatch Consulting Engineers of Kansas City, Missouri. Our firm has served in the public utility field for over sixty years. We maintain offices in several cities of the United States and in foreign countries. The firm is directed by a managing partner and five executive partners.

All major engineering disciplines are represented in our group. More than 50 percent of the two thousand six hundred employees are university graduates. These include professional electrical, mechanical, civil, nuclear, chemical, sanitary, architectural and structural engineers.

The firm engages in engineering services for the generation, transmission and distribution of electric power. We also provide engineering services to water, natural gas, and wastewater utility systems, both public and investor-owned. Our clients include municipalities, utilities, industrial and commercial

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business, agencies of the government and several foreign nations.

As regards to my personal background, I am a 1948 graduate of Kansas State University with the degree of Bachelor of Science in electrical engineering. My primary responsibility involves planning and supervision of cost of service studies and rate design for electric utility systems. The work also involves studies and reports to utility clients relating to inventory and valuation of property for ratemaking purposes and for purchase or sale; feasibility of alternative plans of operation and management; depreciation requirements for accounting purposes; preparation of bond prospectuses; and steam heat rates. These studies include engagements for both investor-owned and publicly-owned utilities as well as for various customers of such utilities.

During the past ten years, my experience in electric utility rate studies includes engagements by the cities of Marshall, Missouri; Kaukauna, Wisconsin; Owensboro, Kentucky; and Lincoln, Nebraska, as examples. I have performed similar studies for investor-owned utility Companies, including Public Service Company of Oklahoma; Black Hills Power and Light Company of South Dakota; Houston Lighting & Power Company of Texas. I am currently engaged by Oklahoma Gas and Electric Company for presentation of expert witness testimony on rate matters before the Federal Power Commission and the State regulatory authorities of Oklahoma and Arkansas.

I have testified before courts and commissions on utility rate matters and property valuations, including:

Oklahoma Corporation Commission;
Federal Power Commission;
Special Utilities Investigative Committee, Oklahoma Legislature;
District Court of Barber County, Kansas;
District Court of Pawnee County, Oklahoma;
Missouri State Tax Commission.

HISTORICAL RATE FORMS

The electric utility industry has, for many years, been guided in ratemaking by rulings of courts and regulatory commissions which have stated that rate structures shall be fair, just, and nondiscriminatory among all classes of customers. Fairness is achieved if rates are based upon the costs to serve customers of each class at various levels of individual usage.

A separate rate schedule is normally developed by cost analysis of each customer classification, such as residential, small commercial and industrial users. The distinction by customer class is made to recognize differences in usage characteristics and electric facilities required to serve various classes of consumers, and the resulting differences in cost to the utility per unit of customer consumption.

The most common rate form in use today is known as the declining block energy rate, in which the price per kilowatt hour decreases with increasing consumption by the customer. A simple example of this rate form would be a charge of 5 cents per kilowatt hour for the first one hundred kilowatt hours used per month, and a lesser charge per kilowatt hour for all additional usage. The example which I have described is known as a two-block energy rate. Administration of this rate requires the installation of a meter for each customer which shows the quantity of use on a dial. This method of service and billing is customarily applied to residential and small commercial customers.

A rate form known as a two-part demand and energy schedule is common to the service of large commercial and industrial customers. In this case, the

customer is billed for his maximum rate of use as well as for the quantity of energy consumed in a month. The two-part rate schedule contains a demand charge plus an energy charge. As an example, the total demand might be charged at a rate of $2.00 per kilowatt of total maximum demand. The energy charge might be 3 cents per kilowatt hour for the first 1000 kilowatt hours per month, and all additional energy use charged at 2 cents per kilowatt hour. The sum of the demand charges plus the energy charges constitute the total customer bill. Administration of the two-part rate requires installation of a meter with a demand indicating device, in addition to the energy dial.

In conjunction with the basic rate forms that I have mentioned, certain pricing adjustments may be appropriate to reflect cost differences not covered by the basic rate. One of these is the voltage discount in which electricity is delivered directly to the consumer from high voltage lines, resulting in a saving to the utility due to elimination of voltage step-down transformers and low voltage secondary lines to the customer connections. In this case, the customer provides the step-down facilities necessary to utilize the service and at his own expense. The purpose of the high voltage discount is to pass the cost saving by the utility on to the customer. Historical rate forms have also included, in some cases, reduced charges for service delivered on an interruptible basis. In these instances, service to the customer may be cut-off by the utility at anytime during a shortage of power supply. Another form of reduced charge relates to services taken during off-peak times. Both the interruptible and off-peak rate schedules reflect cost savings to the utility in the form of reduced plant requirements to meet the peaks or the elimination of more costly fuel and energy consumed during peak use periods.

In the past, savings arising from high voltage delivery, or interruptible and off-peak service, have been made available through appropriate rate structures to large commercial and industrial loads, where the plan could be carried out with minimum difficulty. To a limited extent, the benefits of these rate forms have been extended to residential customers where the utility exercised some control, by use of automatic load-limiting devices, on usage by major applicances such as water heaters and electric ranges.

In my experience, the objectives in rate making have been to assess the costs of service to all classes of customers and to all consumption levels of individual users, through the mechanism of a cost based rate schedule. The intent of historical rate structure has been to neither encourage nor discourage the use of electric power, but to provide the service in the amount required by the customer at a fair price.

All of the States now have some form of utility rate regulation, either through a state-wide Commission or a local regulatory board organized as a public body. The rate structures of electric utilities are subject to the review and approval by these regulatory authorities in the public interest.

PRESENT RATE FORMS

In recent years, we have all become alerted to the potential nation-wide energy shortage and the effects of inflation on cost of goods and services. This has caused increasing concern among Federal and State legislatures, as well as concern on the part of utilities and regulatory bodies, regarding the cost and availability of energy in the future.

Electric energy is mainly produced from a number of energy sources including oil, natural gas, coal, nuclear, and water power. All of these energy sources,

except for water power, are said to be nonrenewable and limited in quantity. A number of experiments are under way to develop renewable energy sources such as solar, wind, tidal power, and geothermal heat. Black & Veatch is actively engaged in research on electricity generated from solar energy.

Extensive discussions have occurred recently in the Congress, in the States, and by other interested parties regarding energy conservation through innovative utility rate structures. Some of these parties have also taken the opportunity to introduce considerations of social reform through utility charges for service. The more prominent rate structure reforms are known as: (1) the life line rate, (2) the flat rate, (3) the inverted rate and (4) time-of-day rate. The utility industry is also investigating means of load management control to reduce or eliminate the use of certian electric services during peak periods or to shift loads to off-peak times.

Justifications given as to the need to reform utility service charges are many, and I will mention some of them. It is presumed that customer loads with high peaking characteristics, as opposed to more uniform electric loads, are contributing substantially to the installation of plant facilities to serve the peak. It is claimed by these proponents that elimination of peaks would conserve capital, since investment in peaking facilities would not be needed, and thus cause economies to be realized in rendering utility service. The time-of-day rate, with higher charges for on-peak service, is designed to accomplish this objective by providing economic incentives to consumers to shift peak loads or eliminate them altogether.

The energy conservation issue has evolved several plans to accomplish the objective. The most frequently cited plan is the adoption of an inverted

rate in which charges to a small consumer are minimal, and the unit price is increased for additional power or energy use. This plan is similar to the declining block rate structure in reverse. The effect of this approach to utility service pricing is to transfer the cost burden to the large user, and the benefit to the small consumer. The plan would impact heavily on industry, or force large consumers to turn to an alternative source of electric energy. The inverted rate has not received significant acceptance in ratemaking.

Flat rates, on the other hand, are designed to charge the same unit price for all consumption of electricity. The advocates of this plan claim that no valid reason exists for other methods of cost recovery. In my experience, I do find valid and convincing reasons for differences in price structure among consumer classes. We normally find, for example, that industrial customers use the service at a more uniform rate of consumption than do residential consumers which require peaking facilities with short term utilization. Thus, the cost per kilowatt hour to serve the industrial load is lower than the cost of the residential load due to savings in capacity related facilities per unit of energy usage by industrial customers. There is cost justification for some flattening of historical residential rate structures in the midwestern area of the United States. We have found that large residential users tend to produce higher peaking loads, due to airconditioning, than do the smaller consumers. Thus, more of the costs of short-term utilization of peaking facilities should be assigned to large residential usage which tends to off-set other economies of serving the large customer. These cost effects can justify a greater flattening of residential rate structure compared with rates employed in past years. The state of Wisconsin has been one of the pioneer areas through recent adoption of the flattened rate concept.

Life Line rates are directed toward economic relief to the poor in furnishing minimum essential utility service to the home. The concensus on minimum quantity of electricity deemed essential has varied from about 200 Kilowatt hours per month to around 700 per month per family. To my knowledge, no significant attempt has been made to cost justify the Life Line concept of charge. Utility companies, generally, do not oppose the social theory of relief to poor persons. The reservations of the Companies relate to the method of cost recovery through rate structures or other means. The most frequently voiced means of cost recovery for subsidy to low income utility customers is through the use of energy stamps issued to qualifying persons by a public welfare agency. Other methods advocated for recovery of the subsidy would spread the deficiency among all other customers as a surcharge. I personally believe the utilities are ill-equipped to administer a welfare plan and this responsibility should be borne by a public agency established for this purpose, with implementation of an energy stamp plan for the payment of utility bills by qualifying low income families.

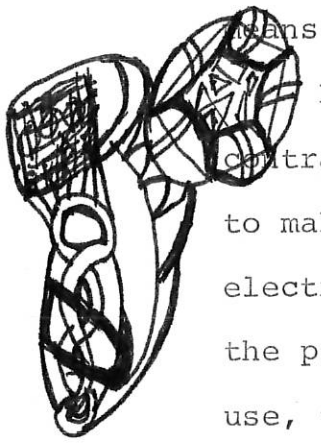
The adoption of flat rates and life line rates has been limited to only a few areas at present. Several of the States have directed experimental programs be undertaken, but to date, the adoption of innovative rate structures is proceeding with deliberate caution.

In summation, I believe the efforts directed toward energy conservation through rate structures are worthy of continuing study and experimentation and that we will see some changes in utility pricing policies in the future.

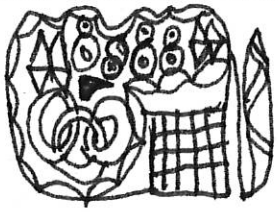
Testimony before Interim Energy Committee
Chairman Don Mainey
September 22, 1977

RATE REFORM

This committee stands in a very unique position. It's as if the whole energy game has been washed away and we are ready to begin anew. There will be new rules, new economics of scale and most importantly a new, more enthused role to be played by the peoples' representatives -- the state government. You are the elected representatives mandated to rethink and remake the rules of energy production and energy distribution for Kansas. The opportunity has never been as prominent or as pressing as right now. Energy crisis -- its being said over and over by most factions of our society. Crisis necessarily means action.



From a consumer viewpoint, there seems to be a basic contradiction with how the utilities are structured and forced to make profits. For the most part, I will be speaking about electric utilities as regards system peak and expansion. Since the profits are computed on a percentage of the power plants in use, the incentive is quite clear for our utility executives. The utilities are held responsible to meet any demand which is placed upon them. This top demand or peak demand serves as the basis for new construction programs. With each new peak comes



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the cry for greater expansion and consequently greater return on the expanded rate base.

With electric utilities, I must say that two other factors play an important role in determining new expansion. One is the continuing overall system growth we have seen for the last two decades. A more evenly distributed system growth, however, would improve the present operations of existing plants. Secondly, for the midwest, our utilities have had to make a major shift from the use of natural gas as boiler fuel to coal and possibly nuclear. How our utility experts got caught in the squeeze by this gas shortage is quite baffling. If they were not anticipating such supply questions, one wonders about their ability with respect to uranium or coal.

At this juncture, it no longer makes sense to expand the system only for peak periods. For consumers, a shifting of some peak loads to off peak times will result in less need for system expansion. That is one area where we the consumers have some control in order to keep costs down. Fuel contracts and prices seem to be out of all of our hands. Most of the contracts have escalator clauses of some sort so fuel prices will continue to increase. That part of our electric bill which goes for paying off new power plants should and can be kept at a minimum. Using what plants we have already built to the fullest extent seems the only just and reasonable way.

Essentially, consumers are asking for rates which will track the costs much more clearly. Each unit of power should have its total cost roled in as closely as possible. Peak time power costs more and should be reflected in the rates. At peak times, the utilities are using their peaking turbines which in burning gas and oil are much more expensive than their baseload coal plants. Additionally, this peak demand is putting pressure on the system to add more generating capacity -- a much more expensive proposition today. [FEA Interim Report -- Cost per kilowatt of new plant capacity has escalated 34% in the 1960 - 1970 period and 68% in the 1970 - 1975 period.]

Time of day pricing seems to be the first logical step. For large industrial and commercial customers, this would be a relatively easy thing to accomplish. The cost of such metering would be quite minimal in relation to paying for unnecessary new expansion. Three states have either adopted or seriously studied such a proposition. Great Britian and Germany have used such incentives for many years.

For residential and small commercial, I would recommend a cost based conservation rate. This would entail a first block (say 400 KWH for general residential) to be set at a flat cost approximated rate. Since metering for these customers is cost prohibitive, this rate should be an average of some peak and off peak costs. Naturally this would be determined from a

complete cost of service study. The next block of power (say 500 KWH) would be set at above cost rates. This serves as a clear signal to the customer that his/her demands are putting pressure on the entire system. For customers using more than that, they would probably be all electric and a time of day meter would be worth the cost. Thus, they would pay the costs that the utility was incurring, be it peak or off peak power. For customers not having these meters, an averaged out third block of power could be programmed. Since this system would produce excessive revenues, the utilities could be directed to rebate the money by class of customer or develop new energy conserving programs.

In regards to industrial and commercial customers, they should all be offered interruptible rates so that the utilities can have the flexibility to shed various loads. This way the utilities can work with many customers during those few summer peaking hours so that each customer will only be interrupted a time or two over the summer.

Additionally, the state legislature should order the KCC to look further into power pooling arrangements. The Kansas utilities are connected to Mo-Kan and the Southwestern Power Pool, but only at our utilities' convenience. Rather than being an insurance policy for breakdowns or a market for economic dispatch power, the utilities should set firm contracts to

improve their respective load facotrs. With the advent of direct current, transmission lines, a national grid is on the horizon. Minnesota is a winter peaking utility state while Kansas is a summer peaking state. Sharing of electric leads between those states could improve the load factors remarkably.

Since more power plants mean more profits, the incentive is really away from the most efficient use of resources or energy. Rate of return should be computed on a different basis. As the utilities improve their annual load factor, this should be rewarded by a higher rate of return. Last year KG&E had a 52% load factor, some 9% below the national average. With each percentage point improvement, they should be allowed a corresponding increase in return on common equity. This system would allow for factors beyond their control such as weather or breakdowns, but a lower load factor would bring penalties. In this regard, fuller use of existing capacity is rewarded and a benefit to all concerned.

Having expanded the use of rate of return, I would argue that the time is right to go the next step and redefine rate base. In the past, rate base has been narrowly construed to include new power plants and related expenses. At that time, larger power plants meant cheaper electricity, as we all benefited from economics of scale and technical improvements. Such plateaus have been reached and the time is now for a new course.

Since utilities are an increasing cost industry now and since we can save energy more cheaply than produce it, we should venture in those directions of conserving and using our energy more wisely.

One activity which utilities do best is to gather capital resources. With these capital resources, utilities could establish a very serious insulation effort. An effort whereby the greater numbers of existing housing could be inspected and insulated. New homes fall under the KCC order so the real need is older units. The utilities already have the billing contacts and information to see which homes are using the most energy. They could work in conjunction with the present insulation contractors since there will be plenty of work to go around.

In the commercial, industrial field, utilities could offer their services in cutting down energy useage. Rather than promoting more sales which the utilities did well in the past, now they could reverse field and work for the wisest, most efficient use. In doing this, the utilities would be paid for such services. Seriously working to develop low cost solar heating units or medium scale wind projects could be part of their new rate base. No doubt, consumers should benefit from the past knowledge of the utilities as well as opening up new avenues of energy consultation.

This committee could make quite a name for itself by recognizing the new energy situation and effectively dealing with it. The days of cheap, unlimited resources are over. Fuel prices have tripled in four years and promise to continue upward. It's simply a new ball game and you are the ones setting the rules. Kansas utilities have much room for improvement as far as annual load factors are concerned. Give them a new incentive to profit from such improvement. One must always keep in mind that the last two decades have been an historic avalanche of pushing energy sales. This trend will not be reversed in a few months. The public needs some new energy efficient models to get behind. I have every bit of confidence that the utilities are capable of reversing field if you mandate that such changes are in their best interst.

A new definition of rate base would lend new dimensions to Kansas being a forward and independent thinking state. Unleash the present dogma of only new power plants and watch the utility as well as individual creativity soar. We could be a model for states all over the country. It would not be the easiest accounting problem but we are on "dead end/run out of capital" road right now.

In the last analysis, consumers do not mind considering such novel ideas and indeed it would take time to implement such ideas. However, the utilities continue to plan more and more expansion

while we are thinking about rate reform. With an 8 year lead time, utilities are always a jump ahead. I would only ask that you consider that point as you ponder new rate reform ideas. Regardless if we use a plant half the time or less, when it is built, we will have to pay it off. Where is the best place to spend $2 billion? What would your constituents say given all the facts?

Thank you for your time and interst.

Sept. 22, 1977

The Consumer Utility Rights Board's report: On Rate Reform

To the Legislative Committee on Energy.

The Consumer Utility Rights Board has been active in the area of utility rate structures since 1972. We have worked on the water, sewer, and gas structures with some success. CURB has also had individuals who have intervened in several KG&E rate request hearings (a group can not intervene as a group without a lawyer, which is expensive for a volunteer community group). We debated KG&E before 14 Wichita Citizen Participation Organizations a year ago last June over whether a third neutral party should be brought in to evaluate KG&E's rate structure and offer their recommendations. This passed 12 local groups to 2 and was sent to the city commission. The Kansas Corporation Commission intervened saying it was their responcibility not the city's and the city with its own expectations of energy problems seemed happy to get out of any action. The Federal government also looks as if it will leave the utility reform movement to each state to work out. So here we are with the debate about how real is the energy crisis swirling about us. The common denominator in the situation is our utility bills and how fast they are rising. What can be done?

Our group supports the concept that rates should reflect the costs of providing service to consumer or class. The basis to this is knowing more exactly what such costs are and not comletly relying on the utility for verification.

We support prohibiting declining-block rates unless the utility can show that they are cost justified. We believe we should promote conservation not overt use of our resources.

We also support peak-load pricing for industrial and commercial customers and offer it to residential customers who are willing to pay the costs of installing a new meter. Peak users are primarily responsible for creating the demand requiring expensive new power plants thus peak-load rates should be higher to discourage on-peak use. There are two possible methods for this incentive, summer/winter differentials in rates and time of day metering. The use of peak-load pricing ensures that the costs of expensive new power plants are paid for by the customers who create the need for those facilities. by reducing the need for new power plants, peak-load pricing should save money for all customers.

We support marginal-cost pricing as a means by which utility rates are determined according to the cost of replacing the used energy, rather than the actual cost incured by the utility. Since it is the high growth customer who is responsible for the new capacity (power plants) and the resulting higher costs it should be their responsiblity for paying for the higher costs. If we instead charge the high growth customer at an average cost, then we would be selling power to this customer below the cost of producing more energy. We would also be selling power to steady users at a higher price.

At this time it seems that consumers are misled by the low cost of existing energy and thus choose to increase thier usage even though energy conservation

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may be a cheaper method of meeting their needs. Marginal costs would better represent the correct amount for the choice between using more energy and conserving. The Federal Energy Administration reports that West Germany with approximately the same gross national product uses just over half the energy the U.S. does.

We support using the excess revenue the utility would receive towards a lifeline rate.

Small users of goods, single people, low-income, or senior citizens, have an inelastic demand. They can adjust their lifestyles to meet most changes in the market but utility bills prove to be somewhat hard to adapt to in that they are dependent on them for essentials such as heating and lighting. Small customers can not be expected to switch back to ice boxes or whale oil lamps. A minimum necessary usage will take place regardless of the price.

Lifeline rates are a reaction to this situation and would provide essential residential electricity needs (usually 300-500 kilowatt-hours per month) which is at least no higher than the rates charged to other customers of the utility.

Lifeline service is also promoted as a means to encourage energy conservation since it would provide an incentive to stay within the lifeline rate. It would seem simple to educate comsumers that the more they use the more they pay.

The California Public Utilities Commission reports that lifeline rates is working to keep rates down for residential users. Under the California act a minimum amount of electricity (240 Kwh/month) and gas (106 therms/month) are frozen until the average rate of all other users exceeds the lifeling rate by 25%. Relief for low use customers will be higher in coming years as the commission exempts lifeline usage from new rate increases.

We would like to see more hearings on fuel increases. At this time increased fuel costs are automatically adjusted into the customers bills.

We would like to see utilities prohibited from charging consumers for promotional, political and image advertising.

We would like to see requirement of the use of load management if it is deemed beneficial by the state utility commission.

We especially would like to see more encouragement for consumers to intervene in regulatory hearings which effect that consumer. We would like to see that the consumer has access to funds to pay attorney's fees, expert witness's and other such costs.

We would like to see the prohibiting of the use of master-meters. We feel each consumer should see the results of his/her use and be responsible for their own bills.

The KCC should be directed to prohibit termination until reasonable prior notice is given and to provide an opportunity to contest terminations based upon results of the health of the user.

The KCC should prohibit any person from being on the board of more than one utility or an officer or director of a utility and also holding a major position in a financial institution, a company which sells material to a utility, or a company which is a major purchaser of electricity from a utility.

Sun-Sentinel
8/26/77
Pompano Beach, Fla

Senator's Class-Action Suit Challenges FPL Rate Hike

By LINDA KLEINDIENST
Sun-Sentinel Writer

FORT LAUDERDALE — A lawsuit challenging Florida Power and Light Co.'s rate hike was filed yesterday on behalf of Broward County residents.

State Sen. James Scott, R-Oakland Park, filed the class-action suit against the state Public Service Commission (PSC), which granted the rate hike to FPL.

Scott, who said the action was prompted by calls from his constituents, is named as a plaintiff along with a blind Margate woman and a Pompano Beach man who has a large family.

The Circuit Court action was filed on behalf of all Broward County residents who use more than 750 kilowatt hours a month — the ones affected by FPL's inverted rate schedule, which was mandated by the PSC. It is these consumers who face the biggest increases in their monthly electricity bills.

Scott said one of his co-plaintiffs, Mrs. Frances Alaimo, is legally blind and requires bright lights in her home, in addition to other aids and appliances that help her function in her home.

The other co-plaintiff is J. Michael Reisert, whose family includes three children. He owns a three-bedroom home in Bel-Aire.

"The people are fed up," Scott said. "A utility bill, formerly a minor item in the household operation, is now like an onerous second mortgage in favor of a loan shark company. People who are retired and on fixed incomes, and even people where both family members are working, have a difficult time paying their utility bills, which for many moderate-sized, three-bedroom homes is approaching $200 a month."

Scott, who owns a three-bedroom home, paid a $200 electric bill last month. He said his bill had been raised by about 30 per cent because of the rate hike.

The suit seeks an injunction to stop the higher rates and asks for damages and refunds.

Scott said he believes the increase is discriminatory and the PSC exceeded its authority.

"The Public Service Commission has no authority to grant an excessive rate increase and has no authority to legislate conservation," Scott said.

Scott pointed out he filed the suit in his capacity as a user of electricity, not as a state senator.

"But, I wonder if I hadn't been a senator and been getting all these phone calls I might not have been like others who just shrugged their shoulders and said it's another sign of inflation" Scott said.

Electricity Boycott Urged

MARGATE — Commissioner George Liederman, who has alr "declared war" on Florida Power and Light Co., plans to carry battle to the city's shopping center parking lots during the weeken

Angered because his electricity bill increased from $120 to $179 month, the commissioner will advocate an electricity boycott for th or four days to "hurt the pocketbook" of the power company.

Liederman will mount a public address system on top of his ca "wake these people up just like Paul Revere did."

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Wall Street Journal
8/ /77
New York

'Inverted' Rates Imposed on Florida P&L Will Be Reconsidered by PSC This Week

By JOHN KOTEN
Staff Reporter of THE WALL STREET JOURNAL

TALLAHASSEE, Fla.—The Florida Public Service Commission, responding to rising public anger, will vote this week on whether to rescind a special type of rate structure it forced Florida Power & Light Co. to adopt only three months ago.

The outcome appears to hinge on the views of one of the commission's three members whose opinion has alternated back and forth on the subject for several days. A vote is scheduled for today, but the wavering commissioner, Billy Mayo, said in an interview yesterday that he may ask for a one-day postponement to give him more time to make up his mind.

One of the other two commissioners firmly opposes the rate structure, and the other one just as firmly supports it.

Although the decision will directly affect only Florida P&L, utilities in other states are watching with interest. The "inverted rate structure" engendering controversy here is one of various innovative pricing mechanisms in use or under consideration in many states as energy-conservation devices.

"If the Florida Public Service Commission votes to rescind the inverted rates, it will be a landmark decision," says Howard Winkler, a spokesman for Georgia Power Co., a subsidiary of Southern Co. On Thursday, the Georgia Public Service Commission forced an inverted rate structure on Georgia Power as part of a $97.6 million annual rate increase.

Inverted rates are primarily designed to promote energy conservation by providing for increased unit charges on electricity exceeding a specified monthly level. (In the Florida structure, that level is 750 kilowatt hours per month.) This arrangement contrasts with the traditional rate structure under which prices fall as usage rises.

More States May Follow

Thus far, only a few states—including California, Michigan and Pennsylvania—have imposed inverted rates. But more states may be following the trend soon. The National Association of Regulatory Utility Commissioners says 31 state commissions are considering new types of rate structures such as inverted rates and "time-of-day" pricing, under which rates drop during hours of traditionally lowest usage.

The inverted structure here was approved by the commission last June on a two-to-one vote, as part of a $195.5 million annual rate increase granted Florida P&L. Since then, many of the utility's customers have loudly complained that the 750-kilowattt level is unrealistically low and discriminatory. A few days ago, a state senator filed suit against the company and the commission in an effort to eliminate the new rate structre.

One of those who voted for the structure, Paula Hawkins, the commission chairman, said in an interview that she continues to support it. "I still think it's a perfectly feasible structure, and over the long run it's going to save most people money," she said.

Another commission member, William Bevis, said he has opposed inverted rates since they were first proposed here, and he stated that he will vote against them today. "The commission voted to approve the new structure without ever having adequate information on which to base its decision," he said. "I'll continue to vote against it until we do have that information."

The third commissioner, Mr. Mayo, is the one having trouble making up his mind. Originally he votedin favor of inverted rates. The decision aroused controversy, especially in the Miami area. Florida P&L joined in the opposition.

Meeting Convened

Early this month, Mr. Mayo evidently decided he opposed the rate structure, and he succeeded in having a commission meeting convened for the purpose of rescinding the decision. However, Mr. Mayo said that at that meeting early last week Mrs. Hawkins temporarily talked him out of voting against inverted rates. Thereupon the commission decided to postpone a vote until today.

Last Thursday, Mr. Mayo said in an interview that he was fairly sure he would vote against inverted rates at today's meeting. But yesterday, he said he had changed his mind again. "Right now I'm leaning toward voting to keep the structure we have," he said. But he noted that he's still uncertain. "It isn't just a simple toss-of-the-coin deal." Mr. Mayo said he will try to decide by today's meeting, but that he may have to ask the commission to postpone a decision until tomorrow.

A major point at issue is the percentage of Florida P&L's customers who benefit from inverted rates. A study prepared by the commission staff suggests that during the next seven or eight months the rate structure will produce lower electricity rates than otherwise for 83% of the utility's customers, up from 53% in August when air-conditioner usage was high.

However, Florida P&L has stated that more than half of its 1.8 million customers have had to pay higher rates under the new structure. And a utility spokesman said that if the structure ultmately produces lower rates for as many as 83% of its customers, the utility will seek another rate increase.

Mrs. Hawkins contends that much of the public outcry against inverted rates results from misinformation supplied by Florida P&L. "It's been the most successful PR campaign I've seen" in a long time, says the commission chairman.

Mrs. Hawkins also claims that the company opposes inverted rates because it wants higher rather than lower electric consumption in its service area. "They want to be the biggest power company in the world, and they've told us so," she says.

The Bradenton Herald
8/8/77
Bradenton, Fla.

FP&L's 'social ratemaking' sparks summer of discontent

By HOWARD HALL
Herald Staff Writer

Restaurant owner Smokey Smith is steaming. He could even throw some pots and pans. And he's got lots of company.

What he's steaming about it his latest electric bill. It's $15 more than last month's.

"You can't argue with a meter. So I try to go down and ask those people (Florida Power & Light Co.) for a re-read of the meter. It doesn't do any good, though," said Smith, who operates a small restaurant at 533 13th St. W.

Smith said his most recent bill was $174 compared with $155 in June.

"When I started in business here five months ago, it was $125. Last month, I used only 32 kilowatts more and it costs me $14.72," he added with a touch of resignation.

Just as unhappy is Carmen H. Salmon of 24th Street West, a widow with five children.

"My bill for June was $57. The bill I opened today is for $91.44 and I haven't burned that much more electricity," she said.

"The bill almost gave me a heart attack. It's all got to come out a Social Security check, too," Mrs. Salmon said.

Fran Sarich of Palma Sola Park added her comments while shopping at Westgate on Manatee Avenue West. "My bill was about $160. It's ordinarily about $90."

Mrs. Thomas L. Walker, of 11th Street West, was luckier. Her bill was only about $5 more but it was enough to make her unhappy.

This summer of discontent was brought about by a rate increase that went into effect July 8. It means that many homeowners must pay $150 to $170 for what cost them about $100 last year.

What has many people angry is that the increase is set up on an inverted rate structure for residential customers approved earlier this year by the Florida Public Service Commission. The commission regulates utilities such as electric companies.

The intent of the commission in adopting the so-called "conservation rate" was to save energy. The commission figured that the higher the bill, the less electricity customers will use.

Under the old declining rate structure, customers were charged a lower rate for the electricity used over the 750-kilowatt-hour cutoff.

As it is now, the first 750 kilowatt hours cost 3.303 cents an hour and the price increases to 3.846 cents a kilowatt hour above the cutoff.

Last year, for instance, 1,000 kilowatt hours cost a local customer $33.19 and this year it is up to $37.79, or an increase of 13.8 per cent. And the more power that is used, the larger the difference.

Florida Power & Light Co. is no happier over the new rate system than the customers.

The firm has pointed out to the commission that the big losers are big families.

"There is no reason why our large family users should subsidize our small users, which include winter vacationers and singles," attorney William Steel of Miami told the commission.

FP&L is appealing the new rate system, citing complaints from customers who have had bills increase from seven per cent to 30 per cent.

The Miami-based untility company was saddled with the system when it was granted a rate increase of $195.5 million in early June. The figure was about $154 million less than the $349 million sought by the firm.

Public Service Commissioner Bill Bevis said Friday he will support the firm in seeking to overturn the inverted rate structure.

"We've had many complaints about the system. As it is now, about 30 per cent the users are shouldering the entire rate increase and I am absolutely against it," Bevis said.

He said the action by the commission was a "new tarriff at the 11th hour without sufficient evidence to support it."

Bevis called the action "social ratemaking" and predicted it would be overturned by the Florida Supreme Court.

Bevis criticized fellow commissioners Paul Hawkins, who is chairman, and William Mayo for agreeing to include the energy incentive rate schedule.

C. Earl Henderson, associate public counsel, said oral arguments by FP&L against the rate structure have been conducted and the issue will go to the commission early next month.

Council

Delray Beach News
Journal
8/11/77
Delray, Fla

"We can see how successful we are in going down this path and then the council may want to consider another alternative.

The council also agreed in its regular meeting Monday to ask the Public Service Commission (PSC) to reconsider the conservation or inverted rate schedule Florida Power & Light (FPL) began using July 8.

Under the new rate schedule each kilowatt hour over the first 750 kilowatt hours costs more than a kilowatt hour up to 750 kilowatt hours.

Traditionally, FPL representative Tom Patillo said, the more kilowatt hours used the less the charge.

The change in the rate schedule increased Delray's electricity bill $16,000 a month, Vice Mayor Leon Weekes said.

The city needs a "positive energy conservation program," he said. The city's June electric bill was $40,000 and the July bill was $56,000.

"There is no figure in the proposed budget to accomodate that kind of electric service," Weekes said.

Since the rate increase went into effect, FPL has been receiving as many as two calls a minute, Patillo said.

The FPL rate schedule required by the PSC allows a $3.20 basic charge instead of the former $3.00 charge. For each kilowatt hour used less than 750 kilowatts, residential customers are charged 3.3 cents, up from the former charge of 3.07 cents.

But the big difference comes in the cost per kilowatt hour over 750 kilowatt hours used. There the charge increased from 2.86 cents to 3.85 cents per kilowatt hour.

That is a 35 percent increase in the rates for more than 750 kilowatt hours.

The 750 kilowatt hour cutoff point is a nationally determined "lifeline" figure, Patillo said.

The lifeline rate is the number of kilowatt hours that allows a family of four to survive, he said.

"The idea was that more people will tend to conserve electricity, they will turn off the airconditioning. The question is at what point are people wasting electricity. And that point varies among us. It is arbitrary to pick a number and say you are wasting anything over 750 kilowatt hours."

FPL studies show no correllation between income and usage. Because of poor insulation and substandard housing, low income people often end up paying a great deal more for the basic electrical requirements, Patillo said.

"What happens is that you end up having a high income person subsidized by a low income person.

"FPL is not against the lifeline concept, but we don't feel that the electrical utility's rate should be used for social issues."

The company has appealed the conservation rate approved by the PSC and expects to be heard by the commission in September, he said.

Weekes called the inverted rate "discriminatory against many people in South Florida."

"Things like this can't be tolerated," Sanson said. "They cannot be dealt with by the consumer."

The council also agreed to order an appraisal of two lots which front SR A1A of Atlantic Avenue.

Paul Ledridge, the owner, offered the lots to the city for approximately $74,100 after the council refused his request to leave the zoning commercial.

The land is scheduled to be rezoned to residential.

The appraisal is the first step the council needs to take before buying the land, although a local resident, Ernest Schier, objected to the council considering buying land for additional parking south of Atlantic Avenue

Palm Beach Post
8/26/77
West Palm Beach, Fla

Bevis knows that the usual justification — that the utilities are due a fair rate of return on their investments — isn't popular with residents just now. Traveling with a public relations man, he conceded that the July 1 FPL rate hike of $195.5 million and the July 20 Southern Bell rate hike of $133.6 million have aroused the public like never before.

"This is the toughest political job in Florida," he said. "We have to stand rigidly between the consumer and the utilities. We cannot bend without hurting the consumer. Allow the consumer off too lightly and he'll pay for it several years later when additional construction that should have been done wasn't done by the utilities."

"Yes, some people say, 'I wouldn't vote for him for nothing.' Undoubtedly it (his votes) will hurt. On the other hand, I hope there's enough businessmen in the state that know these utilities must continue to grow." That, he said, is the group he must rely on to be reelected.

Turn to BEVIS, C2

William Bevis
. . . defends rate increases

With elections upcoming next year, Bevis admitted politics have changed considerably in the utilities races since he first took office in 1974.

"Back then," he said, "people didn't recognize you, didn't pay much attention. On the plane coming here from Miami, there were two or three people that recognized me. But still, only a few people know my face."

Excusing himself as his public relations aide reminded him of his next interview, Bevis left the restaurant.

At the next table, a diner turned her head.

"Who was that man?" she asked. "William Bevis! That was him! There's a lot of people that would like to get their hands on him right now!"

Today
8/26/77
Cocoa, Fla

FPL Rate Hike Attacked in Suit

TODAY Wire Services

Contending the new inverted electric power rates ordered by the Public Service Commission are unconstitutional, a lawmaker filed a class action suit Thursday against the PSC and Florida Power & Light Co., the state's largest utility.

The suit contends the general rate increase that the PSC recently granted to FPL—which serves Brevard County — violates the state Constitution.

The suit filed in Broward County Circuit Court by State Sen. James Scott, R-Fort Lauderdale, asked that FPL be enjoined from imposing the so-called "lifeline" rate, which gives lower rates to consumers using less than 750 kilowatts per month, and from collecting the higher rates awarded by the PSC.

It was filed on behalf of Frances Alaimo of Margate, who is blind, and Michael Reisert of Pompano Beach.

Scott said the general rate increase given FPL is in violation of the Florida Constitution because it is "not fair and reasonable."

The inverted rate structure, the suit argues, discriminates against the handicapped, who are more dependent on electricity than the rest of the population because they need power for such things as prosthetic devices, hospital beds, talking books and other items.

Scott said the inverted rate structure was initiated by the PSC as an energy conservation measure which it has no power to do. Only the Legislature has such power, Scott, an attorney, argued.

"A lot of people could not pay the higher rates and may have to do without electricity," Scott said.

Many Brevardians have also complained about higher electricity bills as a result of the new rate structure.

A Brevard customer using 750 kwh paid $31.66 plus municipal tax in his most recent electric bill, according to figures supplied by FPL District Manger Bill Ellis.

A customer using 3,000 kwh—an average amount for a person with a fairly large air-conditioned home—paid $129.34 plus municipal tax.

Palm Beach Post
8/26/77
West Palm Beach, Fla

PSC Member: Rate Protests Will Die

By JEFFERY KAHN
Post Staff Writer

William Bevis appeared a touch embarrassed. Somebody had recognized him.

Dipping his head, risking a smile, Bevis answered the question.

"Yes, I'm the one," he said, a touch of drawl to his voice.

A man whose face goes unrecognized but whose actions are being cursed by millions of Florida residents this month, Bevis said what he did recently isn't any different from what he's been doing for years: Seeing to it the utilities are taken care of.

Bevis is one of three members of the Public Service Commission, (PSC) which sets utility rates in Florida. He and William Mayo cast the decisive votes that gave Florida Power & Light Co. (FPL) and Southern Bell higher rates. The resultant bills have prompted a consumer howl still rising in pitch and anger.

Seated at a table in a West Palm Beach restaurant before the taping of a television interview to be shown later this month, the commissioner conceded he hasn't seen residents this stirred up in the seven years he's been on the commission. But, he said, things will get back to normal.

"As upset as people are, it won't be long until they start using up even more power."

No, said Bevis, he doesn't believe the planned power boycott next Wednesday will have any impact. No, he said, there's no imminent consumer revolt.

"Why," said Bevis, "my power bill was $210 last month. What could I do but ask my wife to turn down the air conditioning a little bit?"

Nonetheless, Bevis knows people are mad and he wants to help them calm down. To help them calm down, he is making a round of public appearances promoting a simple notion: It's not as bad as folks think.

"Would you believe electricity only now is back up to what it was in 1948," he said. The line was strikingly familiar. It was used by FPL in a recent advertising campaign.

Fort Lauderdale News
8/25/77
Fort Lauderdale, Fla

Sen. Scott, Two Others To Sue FPL

By DENNIS KNEALE
Staff Writer

A lawsuit challenging the constitutionality of Florida Power & Light Co.'s latest rate hike and inverted rate structure was to be filed this afternoon.

Sen. James Scott, R-Fort Lauderdale, plans to team up with two other Broward residents in filing the class action suit against FPL and the Public Service Commission in Broward Circuit Court, he confirmed late last night.

"Yes, we are filing suit. We're attacking the rates and the structure on several bases, including that it is outside the authority of the Public Service Commission," Scott said.

Scott, Margate resident Francis Alaimo and Pompano Beach resident Michael Reisert planned the legal action on the grounds that:

- The PSC-approved rate hike violates the Florida Constitution because it is not "fair and reasonable," as required by law.
- The PSC-initiated inverted rate structure, which charges the consumer more per kilowatt hour of usage after 750 hours are consumed, discriminates against the handicapped who cannot do without electrically-powered necessities such as air-conditioning, iron lungs and "talking" books for the blind. Mrs. Alaimo is legally blind.
- The rate structure is an energy conservation measure, which the PSC does not have the authority to initiate. The state legislature does.

Sen. James Scott: Utility bills are like a second mortgage.

"I am a legislator, and normally I like to do things through the legislature. But the session's not until spring. There's been such a problem . . . the people are entitled to have a court case to find out what's going on," Scott said.

"I tell you, frankly the people are just fed up. Your utility bills are like a second mortgage to a loan shark. Utility bills are in many instances higher than mortgage payments," he added.

The lawsuit to be filed today will be on behalf "of all consumers of electricity and all consumers who use over 750 kilowatt hours" each month, Scott said.

His own electricity bills have "increased substantially" with no optimistic outlook for conserving, Scott said.

County Cable
8/17/77
Boca Raton, Fla

FPL To Fight Current Rates

According to Rod Macon, Consumer Services Supervisor in the Boca area for Florida Power and Light , this company is "catching a lot of flack" this month regarding the increase in electrical bills. "Lots of people don't understand," he says. "We're getting a lot of letters, primarily retirees who moved here for health reasons who find the new rate prohibits their using the air conditioning they so badly need."

But for most consumers, Macon believes, the cost of electricity would have been far lower if Florida Power and Light had gotten its way about rate determination.

"If we'd have gotten what we wanted," says Macon, "Our total revenue would have been the same (but) it would have been a 16% increase for EVERYONE since May 1975. That's less that 8% per year to keep up with inflation."

The new rate increase, however, "penalizes people who can't afford to be penalized" according to the supervisor.

"Formerly," he says, "we billed our customers on a "cost to serve" basis. This rate structure was on a declining block. As the amount of KWs increased, the cost decreased." It reflected FPL's cost per customer.

Then the Public Service Commission voted two to one on an "inverted rate structure" called

FPL Fight . . .

(Continued from page 1

a "Conservation Incentive Rate." The more electricity that is used, the more it costs.

"Our company strongly objects," says Macon. "We have petitioned the PSC on a rehearing in September."

Commissioner Bill Bevis, who according to Macon voted against the rate change, has said that if the company takes the issue to the supreme court it would be overruled.

The new rate contains these features: up to 750 KW hours (bare necessities; no air conditioning) there is only a 7 1/2% increase. Up to 1,000, it's a 13.2% increase; up to 1500 KW hours is a 19.5%, etc. on up. At 4000 the increase is 28.3%.

"We don't argue with the point that it's an incentive to save," says Macon. "But we feel that the 16% we asked for is enough without having to severely penalize so many people."

He mentions the many residents in South County who are on fixed or low incomes. "The poor don't use less electricity, but more! Poorly built homes, inefficient appliances; trailer parks, poor insulation mean higher electric bills."

There were two reasons, he says, why "everyone's" bills have increased. "Primarily, the hot humid weather makes electric consumption go up. Second, the July 18 rate increase. Both hit at the same time!"

Today
8/8/77
Cocoa, Fla

Inverted Rate Rewards Few

By HELEN TYREE
TODAY Staff Writer

Florida Power and Light's new rate structure could mean a big break for people who keep their electrical consumption less than 750 kilowatt hours (kwh) per month.

The trouble is; not many Floridians can manage to do that, according to FPL officials.

FPL Consumer Affairs Supervisor Lloyd Clanton said there aren't many Space Coast residents who can profit from the lower rates now charged for the first 750 kwh of electricity used.

"The majority of customers in our area would use more than 750 kilowatt hours," Clanton said. "Customers who use only 750 usually have a small residence with a gas water heater and no air conditioning."

Any use of air conditioning—unless it's very conservative use of a small unit—will in all probability drive electrical usage well past 750 kwh, he said.

And after 750 kwh, electricity now costs much more.

Consumers are sweating it out in an attempt to keep their bills as low as possible.

A TODAY telephone survey showed 8 of 10 consumers cutting back on their air conditioning usage in response to a recent rate increase from Florida

What's in a Bill

Here's a breakdown of the charges on a residential electric bill (the rate structure for commercial and industrial users and street lights is different):

CUSTOMER CHARGE — This is not a line item on the bill, but everybody pays it—$3.20 flat rate.

ENERGY CHARGE — 3.303 cents per kilowatt hour (kwh) for the first 750 kwh; for each addition kwh, 3.846 cents.

FUEL ADJUSTMENT CHARGE — Based on the demand for electricity; it's highest in the summer. This month, it's .353 cents per kwh.

FRANCHISE CHARGE — It's 3.705 per cent of the total of the other charges.

MUNICIPAL OR COUNTY TAX — Varies according to where you live, up to 10 percent of your total charges.

Boca Raton News
Boca Raton, Fla.
8/2/77

TUESDAY NIGHT

Kilowatt Hour Consumption	1976 Rates	Rates Effective July 8, 1977 Inverted Structure	Percent Increase Over 1976 Rates
750	$ 26.03	$ 27.97	7.5%
1,000	$ 33.20	$ 37.59	13.2%
1,500	$ 47.53	$ 56.82	19.5%
2,000	$ 61.87	$ 76.05	22.9%
2,500	$ 76.20	$ 95.28	25.0%
3,000	$ 90.54	$114.51	26.5%
3,500	$104.87	$133.74	27.5%
4,000	$119.21	$152.97	28.3%

...all rates shown do not include franchise fees, fuel adjustment or local tax

it's homework time with an fp&l quiz

Okay gang, tonight let's do some homework. Yeah, yeah, school's out, but try telling that to Florida Power & Light. This exercise is on rate structures and watt you can do to cut down on the electric bill. See the above table. That's watt FP&L people use to figure your bills. Note that there is nothing you can do, short of burning candles, to avoid at least a 7.5 per cent increase over last year's bills. Here's the story problem: The average kilowatt hour consumption in June was 913. How much of an increase will the average kilowatt consumer have to pay under the new rates?

Wall Street Jr.
New York
8/31/77

Florida P&L Is Sued Over Rate Structure Forced on It by Agency

By a WALL STREET JOURNAL *Staff Reporter*

FT. LAUDERDALE, Fla.—A flood of angry complaints about a special kind of rate structure Florida Power & Light Co. began using last month has culminated in a potentially costly lawsuit against the company.

The "inverted rate structure," which the Florida Public Service Commission forced on the company as part of a $195.5 million rate increase, gives a price break to residential customers using fewer than 750 kilowatt-hours of electricity a month.

Many customers of the utility, which serves much of southern Florida, have been loudly complaining that the limit is unrealistically low and is discriminatory. Last week, state Sen. James Scott, a Ft. Lauderdale Republican, filed suit against the company and the commission in an effort to eliminate the new rate structure.

Even before the suit was filed, Florida P&L asked the three-member commission to reconsider its two-to-one vote imposing the rate structure. The company argues that the commission doesn't have the authority to set that kind of rate.

Sen. Scott, who also contends that the commission exceeded its authority and that the rate is discriminatory, has asked the Broward County Circuit Court to order Florida P&L to junk the rate structure and pay refunds and damages for excessive charges to all its Broward County customers.

"The people are fed up," Sen. Scott says. "A utility bill, formerly a minor item in household operations, is like an onerous second mortgage in favor of a loan shark company."

The trouble, according to the law firm that prepared the suit for Mr. Scott, is that most of the utility's residential customers use more than 750 kilowatt-hours of electricity each month. Air conditioning is regarded as a necessity in hot and humid southern Florida, and the very fact that one owns an air conditioner almost assures monthly electricity usage of more than the 750-kilowatt-hour maximum.

In the suit, Sen. Scott argues that no one has proven the "inverted rate" concept actually encourages conservation of electricity.

Additionally, the suit claims that the rate structure discriminates against the handicapped, in direct contravention of the Florida constitution. One of Mr. Scott's coplaintiffs is Mrs. Frances Alaimo, a blind woman who owns a home in Margate, Fla. The law firm representing Sen. Scott says Mrs. Alaimo must use high-intensity lighting in her home to see at all, and that she also has several electrical aids in her home; thus, her monthly electricity consumption is higher than the 750-kilowatt-hour maximum.

Besides attacking the rate structure, the suit also challenges certain utility price breaks traditionally given business and industry. Commercial electricity rates are usually lower than residential rates because utilities say it costs less to produce and de→

liver large quantities of el
electricity to a single
site.

TESTIMONY PRESENTED SEPTEMBER 22, 1977, TO THE SPECIAL COMMITTEE ON ENERGY PERTAINING TO PROPOSAL NO. 20 AS IT RELATES TO RATE-MAKING PRINCIPLES AND RATE STRUCTURES, BY CHARLES ROSS

Mr. Chairman and members of the Committee, my name is Charles Ross. I am General Manager of the Kansas Electric Cooperatives, Inc., the state association of all thirty-seven rural electric public utilities which serve electricity to more than 450,000 Kansans. Each of these rural electrics is owned by the consumers it serves and each has a direct interest in Proposal No. 20 as it relates to retail rate-making principles and retail rate structures.

The Kansas REC's believe that jurisdiction pertaining to rate structures should be left to the discretion of the Kansas State Corporation Commission which has jurisdiction over all REC's in Kansas. Under the Commission, public hearings are held in regard to all retail rate cases and rate regulations affecting Kansas REC's. Proper notice of all rate case hearings are made to each REC consumer of a respective REC system prior to the time that such hearing is held. Interested parties have the opportunity to be present and to present their opinions at any such hearing and we believe this procedure is workable and fair and should be preserved.

REC's are very concerned regarding legislative mandates which would require implementation of any particular type of rate structure. We believe that such legislation could not be accomplished without innumerable laws governing each step and each facet of such regulation. As this body knows, once a law is passed, even a bad law, it is difficult to remove or change it and any amending procedure generally only accommodates one specific situation. But structuring of rates for electric utilities is a complicated, complex issue

Atch. 21

because rate strucutres that may benefit one class of consumers will adversely affect another class of consumers.

In contrast to rate structuring by legislation, the Kansas Corporation Commission can more readily develop rules and regulations affecting rates, rate structures and tariffs that meet certain specific needs of consumers at a given time, but that can more readily be changed with changing conditions. Thus, Kansas REC's strongly support good regulation by the Kansas Corporation Commission and likewise support a concept of adequate technical staff for the Commission to perform its function with expertise and efficiency in the overall public interest.

As the Committee is aware, the Kansas Corporation Commission has developed standards in recent months in regard to fuel and power adjustment clauses for electric utilities. Development of these standardized procedures has involved hiring outside consultants by the Commission to perform extensive investigative work in this area. Finally, the Commission held hearings on its findings and recommendations and has devised and implemented a standardized system of fuel and power cost adjustment clauses applying to all of its jurisdictional electric utilities in the state. To be sure, these implemented standards are not necessarily to the liking of all electric utilities but this is an example of what can be accomplished in the public interest under Commission regulation.

This Committee is also aware that the KCC has issued an order setting insulation standards for all new residential and commercial buildings in the state effective November 1, 1977, that must be in place prior to "hook-up" by one of the KCC's jurisdictional electric utilities. Kansas is the first state in the nation where such criteria have been adopted by administrative regulation, and this

is an example of what the KCC can accomplish in regard to conservation of energy.

It is also our understanding that the KCC will soon open a docket for hearings regarding tariff charges for late payment of utility bills, security deposits required of consumers, disconnections for non-payment of bills, and other matters. Already Kansas REC's have met collectively and are prepared to offer suggestions to the KCC which would in effect reduce the impact of present tariffs on file with the KCC in regard to late payments, requirements for security deposits from consumers and other matters. We recognize that conditions of a particular time require possible changes in procedures and we believe that under the KCC such changes in procedure can be developed and implemented in an efficient manner.

I think it's appropriate that we point out to the Committee that the consumer members of rural electrics are indeed the owners, too. These consumer-owner-members do not invest in stock of an REC to earn a return on their investment. They belong to the REC to provide electric service to themselves. Therefore, any rate structures which tend to subsidize one class or group of rural electric consumer-owners can only occur at the expense of other REC consumer members. It is not a matter of having investors share the expense of a subsidy which may result from rate structures. There are no such stockholder investors of an REC.

We believe the most equitable and fairest manner in structuring rates for various groups and classes of REC consumers is to structure such rates based on the cost-of-service to supply electricity to such groups. In this regard, several of the REC's have had consultants make cost-of-service studies for their respective REC systems prior to going before the KCC on rate related matters. As we previously stated, any rate structure which tends to subsidize the rates of one class

of REC member, adversely affects some other class of REC member ratepayers. Believe me, REC consumer members are aware of this circumstance and have no interest in helping to subsidize any fellow member through structured rates.

It's our very strong opinion that an inverted rate structure (one where the rate would escalate with the additional use of electricity) would have a very detrimental effect on the agricultural community of Kansas. REC's serve a very high percentage of the farms and ranches in this state. Electricity on these farms and ranches is a production tool that has, through the years, been most instrumental in allowing Kansas farmers and ranchers to improve their efficiency of production so that they rank at the top of the list in efficiency as producers of food and fiber. There is no doubt that such circumstance has been to the benefit of all society. The utilization of large amounts of electrical power have been a vital contributor to this precedent. In general, farmers and ranchers are larger consumers of electrical power than are residential consumers, and an inverted rate schedule structured to charge a higher rate for the more electricity used would be directly detrimental to Kansas agriculture. As this Committee is aware, the agricultural economy today is in a depressed state. Farmers and ranchers in Kansas are already having difficulty paying their bills, including their electric bills, and any structure of rates which would tend to incur additional costs based on increasing costs of electrical energy used will adversely affect agriculture.

The Committee is probably aware that in some areas of the country inverted rate structures have been placed in effect through public service commissions. Approximately a year ago the Florida

Public Service Commission required the Florida Power and Light Company to initiate an inverted rate structure for its customers. The information we receive now is that tremendous pressure is mounting to force the Florida Power Commission to withdraw Florida Power and Light Company's inverted rate structure. Both the Commission and the electric utility are swamped with high bill complaints as a result of the inverted rate structure.

Kansas REC's are endeavoring to reduce peak loads on their systems by voluntary systems of load management. As an example, the Kansas Corporation Commission has granted permission to one of our rural electrics in northwest Kansas to implement a load management program for irrigators. The program is designed to reduce peak demand requirements in the summer months from irrigators which occur at the same time as the heavy air conditioning load. This program which has been in effect this summer has worked fairly well. Staff and board members of this cooperative have worked closely with their member consumers to establish this program on a voluntary basis. Primarily, this load management program requires that irrigators shut off their irrigation system when the temeperature reaches 90 degrees fahrenheit. That's the time of the high demand for air conditioning. Irrigators meanwhile are free to use electrical power to propel their irrigation systems during off-peak time. A lower rate is the incentive for irrigators to shut off their system during the hot periods of the day and only run them during the off-peak time of the REC system. It is a time-of-day temperature related load management program. Over 90 percent of the irrigators that were contacted about this program signed up and have voluntarily participated throughout this summer. It's my opinion that we can expect to see many more such load management-type programs as just described. Some of them will be voluntary with an incentive in the

.ate structure for participation; some of them, however, may be mandatory through a control of irrigation systems by the REC.

Kansas REC's in cooperation with the investor-owned electric utilities in the state and through a Federal Energy Administration grant have been operating a load management test program in central Kansas the past three years. The results of this test will be published in Kansas Country Living Magazine later this month which goes to more than 77,000 REC consumers throughout the state. This research is attempting to show that management of the electrical energy and water consumed by irrigated crops can be effective and efficient for the irrigator and results of this research is already influencing irrigation procedures.

Much has been said about lifeline electric rates to provide relief for the poor and elderly. Unfortunately, to our knowledge, such rate structures have not produced the desired results in those areas where they have been in effect such as California, Tennessee, and the country of Italy. According to information we received, the practice of lifeline rates now in effect in California as a result of the California State Legislature's mandate is a nightmare for consumers, state regulators, and the electric utilities. As an example, Pacific Gas and Electric Company says it needs 72 different residential rates to conform to the law. Originally, the company had five such rates. Regulatory officials in California say they are not sure what to advise the utilities because proper adherence to the law as passed also requires six different meters on each home. Specifically the California law calls for lifeline rates for lighting, cooking, refigeration, space and water heating, and different schedules for seasonable periods of the year.

The Tennessee Valley Authority, the largest electric utility in the country, has made a very detailed study regarding the possible implementation of lifeline rates. Their consensus is that serious problems would result in obtaining the objectives which lifeline rates theoretically are designed to produce. The study showed that large numbers of low-income families use substantial amounts of electricity and therefore a lifeline rate structure designed specifically to give a break to those consumers who use small amounts of electric energy would not benefit a high percentage of low-income families. The summation of the study indicates that lifeline rate structures would not help those now facing high electric bills and could easily end up with low income families actually subsidizing large numbers of low use, but high income, families who do not need a rate break. TVA proposed that the best method to help low income consumers to reduce electric bills is to help them avoid energy waste through insulation and other energy saving programs, several of which are already underway in Kansas.

According to a report from Italy's state-owned power agency, lifeline rates have put the state-owned power agency in the red, accounting for nearly half of the $880 million deficiency for the current year. Half of the deficiency is blamed directly on tariffs fixed by the government for the benefit of low income customers through a system of lifeline rates. The power agency says that a recent study shows that 94% of all of its customers enjoy the special tariff which had been intended for the low-income group.

Make no mistake about it, Kansas REC's have concern and compassion for the low-income and elderly in regard to their financial problems

egarding payment of high electric bills. Many of this group of citizens live in rural Kansas and are served by REC's. We are aware that real problems exist for people who are on a fixed income in the payment of escalating energy bills. And, we think social agencies in this state should do something to help them. Such social agencies are already established to administer to the needs of these groups of citizens. They have ways of knowing who is deserving of assistance and who is not so deserving. That's an area of legisaltion we hope the Legislature will address, rather than attempting to put electric utilities into the social welfare business. Utilities are not equipped to effectively handle welfare programs. In the case of REC's, please remember that any program or structure of rate schedules specifically designed to assist one group of consumers will directly adversely affect other groups of REC consumers.

In summation, we strongly recommend that rate structures be left to the discretion of the Kansas Corporation Commission as they regard REC's. We further recommend that the State Legislature address itself to providing assistance to poor and elderly citizens who need assistance in the payment of utility bills through already established state social welfare agencies. We strongly believe that any system of inverted rate structures will be detrimental to the production of agricultural products in our state and to the thousands of farmers and ranchers who are the consumer members of Kansas REC's.

Mr. Chairman and members of the Committee, thank you for this opportunity to express ourselves in these matters. We will attempt to respond to any questions any Committee member may wish to ask.

TESTIMONY OF

WILLIAM L. BRYANT
VULCAN MATERIALS COMPANY, CHEMICALS DIVISION

BEFORE THE
SPECIAL COMMITTEE ON ENERGY
OF THE
KANSAS LEGISLATURE

PROPOSAL NO. 20
RATE-MAKING PRINCIPLES AND RATE STRUCTURES

Att 5.22

Introduction

My name is William L. Bryant. I am an assistant to one of the Vice Presidents of the Chemicals Division of Vulcan Materials Company. Vulcan Materials Company is the nation's leading producer of construction aggregates secondary aluminum and detinned scrap steel. The Chemicals Division manufactures chlorine, caustic soda, muriatic acid, and a diversified line of chlorinated solvents. Our Wichita Plant employs over 600 people, and is both the State's largest chemical plant and its largest single consumer of electricity. The Wichita Plant is the biggest electric power customer in Kansas, because it consumes electricity as a raw material in converting natural Kansas brines into chlorine and caustic soda. Electrolysis of salt is also the basis for all further chemical processing at the Wichita Plant, because the chlorine produced is, in turn, raw material for the manufacture of all of the plant's chlorinated products.

Because electricity is the key raw material in our plant, it is not surprising that purchased electric power is also the largest component of our manufacturing cost. For that reason we are vitally concerned with electric rate structures, because the rate structure dictates our purchased power cost.

The Traditional U.S. Electric Rate Structure

The traditional method of pricing electricity in the United States by its cost of service naturally results in a declining block rate structure. The cost of service declines with increased consumption because the fixed costs of service are spread and recouped over higher consumption.

Declining block rates are designed to recover the three basic costs

a utility incurs in providing service: its demand (or capacity) costs, its energy costs, and its customer costs.

The reason for distinguishing between a demand and energy cost is that when a consumer uses electricity he takes not only the commodity, the electricity itself, but also a specific portion of the utility's capacity which generates that electricity. This capacity is limited, and represents a fixed cost to the utility whether or not the electricity the utility is capable of producing from that installed capacity is used or not used. For this reason, a consumer is charged for both the amount of electricity used and the demand or load imposed upon the utility's equipment and facilities.

The interrelation of demand and energy costs is perhaps the most confusing aspect of the existing electric rate structure. Most of us tend to think of the cost of electricity solely in terms of a cost per kilowatt-hour, but that is misleading. Perhaps the interaction of demand and energy costs can be better understood by employing a more familiar example - renting a car. Suppose two men rent similar cars for one day at $20 per day and 20¢ per mile. One drives 10 miles and pays $20, which is comparable to a demand charge, plus $2 for driving 10 miles which is comparable to an energy charge. He pays $44 total, for an average cost of $2.20 per mile (comparable to an average cost per kilowatt-hour). The second man drives 200 miles and pays $20 demand charge plus $40 energy charge for $60 total. The second customer pays many more dollars but drove 200 miles so he pays an average of 30¢ per mile. Thus, the second man is paying a much higher total rental than the first, $60 versus $22, but a much lower cost per mile, 30¢ versus $4.20. We have exactly the same type of situation in electrical billing, but it is apparently more difficult to understand

Industrial Rates

Industrial electric rates throughout the country have generally been 50 percent or less of residential rates. Those who do not understand costs of service or rate of return have said that this is unfair. Yet, the rate of return to the utility is usually greater on industrial business at the lower rates than on residential business at the higher rates. Industrial rates are lower because the cost to serve industrial customers is lower.

Because declining block rates are cost-based, the price for electricity under this system differs between customer classes, with smaller users typically paying a higher charge per unit of electricity consumed than larger users. This is so because of economies of scale (i.e., there is a lower unit distribution cost in serving larger users: there are fewer distribution lines and meters required), and because the larger user typically has a higher load factor (i.e., his use of electricity is more constant). This high load factor is the fundamental reason the larger user's rate per kilowatt-hour of consumption is lower, because it means this consumer is using his electricity on a more consistent basis and thereby more broadly spreading the fixed costs incurred in meeting his demand.

As an example, if one electric customer is using his peak demand 90% of the time, while a second customer is using the same demand only 30% of the time, the same generating capacity and the same total dollars of costs (excluding fuel) are generally required by the utility for each of these customers. Since the 90% customer is using three times as many kilowatt-hours, the unit cost (that is total dollars divided by total units) or the cost per kilowatt-hour to serve the 90% customer (excluding fuel) is only one-third the cost to serve the 30% customer.

If the 90% customer is taking power at high transmission line voltage, then the large investment for distribution facilities to serve customers at low voltages are not chargeable to the 90% customer. These distribution facilities generally represent about 25% or more of the capital investment of the utility company so that the high voltage customer is using only three-fourths of the utility company's investment. In such a case, the 90% high voltage customer should be charged with one-third the unit cost times three-fourths of the capital investment, or only 25% of the total charges (excluding fuel) per kilowatt-hour consumed that should be charged to the 30% low voltage customer.

If fuel costs 8 mils and other costs to serve the 90% customer are also 8 mils, then the 90% customer should pay 1.6¢/kilowatt-hour and the 30% customer should pay 4 x 8 mils unit cost + 8 mils fuel or 4¢/kilowatt-hour -- 1.6¢ vs. 4¢! Actually, the fuel consumed for the high voltage customer is also lower, perhaps 5 to 10% lower, because losses in the low voltage distribution system are not chargeable to the high voltage customer.

This example helps to explain why industrial rates properly should be much lower than residential rates - because the costs to provide the service are much lower. The common denominator should not be cost per kilowatt-hour but should be the rate of return to the utility company on investment required to serve each customer.

Large manufacturers with high load factors are very desirable to any electric utility. They provide a good base load, increase the system load factor, and are the most efficient users of the system. When faced with discriminatory utility rates, industry is forced to curtail operations, relocate its plants, or generate its own power. If uneconomic electric

rates should force industry to desert the utility companies, residential and commercial rates will greatly increase.

Alternative Proposals

Up until a few years ago the price of electricity had actually been declining. But as we all know too well that trend is now reversed, and the price of electricity is rapidly increasing and is expected to continue to go up for the forseeable future. Because of a general lack of understanding of rates and the cost-of-service principle, the present rate structure has recently been the subject of much criticism, and numerous alternate rate designs have been proposed - all aiming to avoid or reduce an increase in rates to the small customer. The motivation is easy to understand, but all the proposed rate reforms suffer from a common deficiency - they ignore economic realities.

Among the most prominently mentioned proposals that have been put forward in recent years as replacements for the cost-of-service based declining block rate method of pricing power are: flat rate schedules, inverted rate schedules, and lifeline rates. All of these rate structures are designed to discourage the volume use of electricity. In addition, each incorporates social welfare goals totally unrelated to the actual costs incurred in generating and distributing power.

These concepts are commonly defined as follows:[1]

Flat rates: a one-part rate wherein a utility's revenue requirements are lumped and all consumers pay the same rate for each kilowatt-hour of electricity used regardless of the demand they place on the system or their individual load factor. In some cases, rate flattening is proposed for residential customers only, with the flattening occurring on the energy and demand charges

[1]At Issue: Electricity, Kaiser Aluminum and Chemical Corporation, Oct., 1976.

and the customer charge either billed separately or spread over the first few hundred kilowatt-hours of consumption.

Inverted rates: a rate structure which would reverse pricing in declining block rates by charging a higher rate per kilowatt-hour as consumption increases.

Lifeline rates: a rate structure for residential customers designed with an artifically low first block. The lifeline level varies from proposal to proposal, but in each case it is designed to provide a minimum charge for what is thought to be the "essential" amount of electricity required to provide consumers a reasonably comfortable life. Revenue deficiencies created in establishing this low first block would be made up by increased rates outside the block (and within the class) and to commercial and industrial classes. While this concept sometimes incorporates electricity conservation arguments - by providing a price incentive for lower consumption - it is offered almost exclusively in a social welfare context to grant price relief to economically disadvantaged customers.

With regard to flat and inverted rates, I believe that the discussion contained in a publication entitled "Current Proposals For Changes in the Design of Electric Utility Rates" by Louis Flax and Mark Drazen, prepared for the National Association of Manufacturers-(July, 1976) fairly addresses itself to these concepts and their obvious fallacies. I take the liberty of quoting from the Flax-Drazen Report.

> Opponents of declining block rates claim that such rates represent "volume discount" pricing and promote electric consumption. The lower rates for higher consumption lead, it is alleged, to waste and are therefore contrary to the goal of conservation. According to proponents of flat rates, a kilowatthour is a kilowatthour regardless of whether it is used by a large customer

or small customer so there is no reason to charge large users less for energy than small users. Thus, they claim, all kilowatthours should be charged at the same rate. Otherwise, the higher rates paid by small users result in such users subsidizing the larger users.

Proponents of "inverted" rates state that the cost of producing electricity is going up (which is true), so that the cost of the 500th kilowatthour sold to a residential customer is greater than the cost of the fifth kilowatthour (which is false). Based on this non sequitur, they propose a rate structure wherein the per kilowatthour rate increases as the level of consumption increases. An obvious fallacy in this argument is that they could as well assume that the customer that recently commenced or increased its service used the latest and highest cost facilities and hence should be charged more. Another obvious fallacy is that 1,000 kilowatthours supplied to a single customer cannot cost any more than 1,000 kilowatthours sold to four customers (250 apiece). In fact, as we shall see, it costs the utility less to serve the single customer than to serve the four customers together. Nevertheless, advocates of inverted rates claim that their rate better represents the cost structure of the utility and, in addition, will encourage conservation and reduce the need for expensive new utility plants.

Such arguments represent a double standard approach to pricing. We are surrounded on all sides by price structures similar to the declining block rate and accept them as natural and logical. The "volume discount" is an accepted method of pricing for almost anything we buy, whether it be milk, pencils, detergent, wine or wastebaskets. The "discount" merely reflects the lower costs involved. Clearly, the cost of servicing an order for 100 wastebaskets or 1,000 gallons of milk is not much greater than the cost of servicing an order for one unit. Just as clearly, the cost of delivering 1,000 gallons by truck is much less than 1,000 times the cost of delivering a single gallon. Thus, since the overhead per unit is lower on a large order, the price can be lower. When it comes to electricity, where overhead plays an even larger role, this is even more valid, since properly determined prices are a direct reflection of Cost." (pp. 35-36, Flax-Drazen Report)

Clearly, rate flattening and inversion, as rate design systems, overlook the fact that the large customer may be served with a relatively smaller investment and lower unit operating costs. The validity of the design of block rates can be determined only on the basis of a cost study for the particular service.

The so-called lifeline rate has been attempted in a few states, but

rejected in most instances. (It is interesting to note that where lifeline rates have been submitted to the voters the concept has been soundly defeated). Among the arguments that can be made against lifeline rates are the following:

1. Lifeline rates depart from the objective of basing rates on cost-of-service. Basing rates on cost of service has been the traditional system of rate design, which has resulted in utility systems throughout this country which provide the most proficient service at the lowest cost to the public and the industry consumer.
2. Adoption of a lifeline rate entails revenue loss by the utility. If the utility must absorb the losses it becomes a risky investment. If other customers absorb the lost revenue, costs and revenues are mismatched and earnings become unstable. Again the utility becomes a risky investment, its cost of capital increases, and rates must be increased.
3. There is a poor correlation between low electric power consumption and low family income. Therefore, adoption of a lifeline rate may result in low income families subsidizing wealthy families who for various reasons use small amounts of electricity.
4. Adoption of a lifeline rate and inverted rates will have adverse long-term economic effects on Kansas. Such a system of rates would make self-generation of power by industry more attractive. As industry turns to generating its own power, the electric utilities will lose a major source of revenue, and rates must be increased to the remaining customers.
5. Lifeline rates have an adverse effect on energy conservation. Underpricing a given amount of electricity for residential customers discourages the judicious use of electric power. It also tends to make the consumer feel he is forever entitled to cheap energy.

Conclusion

Industry expects to pay its fair share of the revenues required for the operation of public utilities. However industrial rates which are unfair and discriminatory can only contribute to the ultimate disadvantage of all concerned. In my opinion, departure from a true cost-of-service methodology will result in industrial rates that adversely affect the general economic and industrial welfare of this state and its citizens.

If a rate making approach discriminatory to industry is used, then industry must carefully evaluate this factor in determining future expansions as well as the operating level of existing facilities. To remain competitive, industry must go where the costs are lowest, and energy cost is a much more important factor today than just a few years ago. The State of Kansas has worked diligently to maintain a good business climate and to encourage industrial growth that creates more job opportunities and boosts the economic health of the state. Discriminatory utility rates can offset those positive efforts and hurt the vitality of the state's economy.

Whatever else is done in the area of utility pricing, rates should be based on actual cost. Utility companies must control and be held accountable for those costs. If utility rates are not based on actual costs, the wrong decisions will be made by the utility companies, their customers, and regulatory commissions. The long-term results will be to the detriment of the utilities, their customers, and the nation as a whole.

My name is John Gatling. I serve as Executive Vice-President for Mid-America, Inc., with offices in Parsons, Kansas.

Mid-America, Inc. is a non-profit economic development organization serving a 10-county, 6,000 sq. mile area in southeast Kansas.

Our prime reason for existence is our efforts to increase the per capita income of the peoples of our area. And the only way this can be accomplished is through the attraction of new industries and the expansion of existing industrial payrolls.

We are here to voice opposition to the inverted utility rate proposal under consideration. This rate concept applied uniformly to all classes of customers (i.e., residential, small commercial and industrial, and large industrial) would result in higher costs for all, and limited to large commercial and industrial customers would be greatly discriminatory. But most importantly, by far, the "inverted rate" proposal represents a virtual fatal approach in our efforts to create new and expanding employment opportunities in the State of Kansas. And especially are these new opportunities needed in Southeast Kansas.

As a State we are presently coming up "short" 12,000 new jobs every year necessary to take care of our high school graduates. This many new jobs shy every year, despite the fact we rank third in the U.S. in the creation of new jobs over the past three years. It is very indicative of the magnitude of the task remaining to be accomplished if sufficient employment opportunities are to be provided for our youngsters. We are expending millions of our dollars to educate these future leaders, and because there are not sufficient opportunities available, we continue to supply a labor force for those states that are more industrially advanced.

Some of our most vocal congressional leaders today are insisting that unemployment is our number one problem. They are demanding that the Federal government take steps to reduce the unemployment rate to a 4% or 3% level in the U.S. And now,

Pres. Carter is evidently intent on reducing unemployment to 3½ or 4%. As an industrial development professional, this figure for unemployment has bothered us for quite a while.

Consider these statistics, if you will! According to a recent estimate by U.S. News and World Report's Economic Unit, the United States alone needs 72,000 NEW JOBS EVERY WEEK ---- or 3.75 MILLION A YEAR ---- if we are to bring the jobless rate down to 4.7% of the labor force by 1980 and to 4% by 1985.!! This number of new jobs would be needed to provide work for three major groups: (1) people seeking work for the first time; (2) workers displaced by machines and new techniques; and (3) those listed as unemployed. This is a staggering task, if not totally unattainable!!

Today, energy availability, cost and reliability are near the very top of every facility planners checklist of plant location factors. All at once, energy has moved from an obscure position to the crucial question for many companies.

To alleviate our dependence on the "Pirates of the Sahara", industry is repeatedly being admomished from virtually every section of government to discontinue using natural gas and fuel oil, and convert to other sources. Strip mining legislation and EPA consideration make it virtually impossible to utilize coal, so electricity is the only alternative to remaining in business. The inverted rate schedule would all but seal the tomb for new capital investments and job opportunities for our State.

Because new industrial development is the well-spring that generates other new investments in commercial development and housing, it is one of the best barometers of the economic health of a city, county, state or region. The final payoff from all kinds of investments is growth in jobs and population. This results in broadening the tax base, which provides local governments the necessary revenues to improve services and public works.

Because jobs and population growth are closely related, continued new high rates of capital investment are essential---.

In a recent SITE SELECTION HANDBOOK survey of nearly 200 major utilities across the country (Summer '77), revealed that most electric companies say they can handle even the biggest new industrial plants. The survey covered most of the major, and quite a few of the minor, utilities in the 50 states. Overall, in a time of worry over energy supply, the survey tends to optimism. There doesn't seem to be any georgraphic significance to this avowed energy availability. Utilities in all sections of the country are saying to industry, "Come on in, the power's here."

And our competition is prepared to utilize this advantage to the optimum! Consider Tennessee ---- out of all the trove of plant location advantages, energy availability and its cost and reliability stand out and are promoted greatly. About 20% of TVA's 27,000 MW of generating capacity comes from hydroelectric sources, and only a small percentage from nuclear

power. The remaining 80% comes from 12 coal-fired steam plants. A total of 20,600 MW of additional generating capacity is scheduled for completion by the mid-1980's, including 19,000 MW of nuclear capacity and 1,500 MW of pumped hydro capacity. It's all just a bunch of numbers until you realize that TVA, which now supplies some 6% or 7% of the power generated in the U.S., will have in the coming decade fully 25% of the country's new generating capacity. There are now nine (9) nuclear power plants under construction or in the final stages of planning.

TVA electricity cost more than it used to ---- but it's still a bargain. TVA's rates are the lowest in the East -- only the Pacific Northwest with its dependence on inexpensive hydroelectric power can boost lower rates: an example of the savings; Industrial rates in TVA territory are 2/3 lower than in New York and about half of what they are in Washington, D.C., Detroit, Little Rock or Boston. They are a third less than Asheville and a fourth less than those of Miami. Those figures are based on 1,000 KW demand and 400,000 KWH monthly consumption.

Inverted rates would be greatly determintal to our efforts in increasing the per capita income of our people and especially so in Southeast Kansas. Rural Kansas has been virtually by-passed by economic boom! The greatest percentage of sub-standard housing, highest incidence of unemployment, greatest out-migration of population exists in rural Kansas. Increased utility costs resulting from much higher rates due to rate inverstion would not only remove one of the competitive marketing tools we possess in our arsenal to attract new payrolls, but would greatly tend to

reduce the payrolls already in existence. This because the preponderance of the manufacturers in southeast Kansas are small to medium-sized companies, far less prepared to absorb and pass-on to you and me as ultimate customers these resultant higher costs of doing business. Particulary is this true for the many small, marginal entreprenuers currently struggling in our region.

We feel very confident adoption of such rate practices would result in the demise of numerous marginal operations throughout the State, resulting in the loss of employment opportunities instead of an approach to make us more competitive and allow the creation of new opportunities.

GTK-52

The Goodyear Tire & Rubber Company

P. O. BOX 1069
TOPEKA, KANSAS 66601

September 16, 1977 PHONE (913) 234-9541

The Goodyear Topeka Plant has the next to highest unit cost for electricity of all domestic Goodyear tire plants. We, at the Topeka Plant are struggling to improve efficiency and reduce costs to make the Topeka Plant once again attractive to our management to place more production here which means more jobs for the Topeka area. We are therefore very critical of any item that will raise our operating costs and this Inverted Rate Structure will most assuredly do that.

Our electric costs have tripled in less than four years while sister plants have in proportion only doubled in costs. Without an attractive operating cost picture, we cannot hope to maintain our level of production and resulting electric consumption, let alone enjoy a good rate of growth. This assuredly will hurt the utility by not providing maximum base consumption at minimum equipment and distribution costs. The end result will be further increases in electric costs due to higher inefficiency. In our opinion, everyone will lose in Kansas.

The competitive structure of our economy (which presently excludes utilities) offers incentive enough to motivate Energy Conservation measures without deterring economic and productive growth. Goodyear has been a leader in the rubber industries in applying conservation measures and is on stream to reach our goal of a 15% unit energy reduction by 1980.

Presented By
Greg Loney
Ass't Mgr of Eng.

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