

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

The meeting was called to order by SENATOR ROBERT V. TALKINGTON at  
Chairperson

9:00 a.m. a.m./p.m. on Tuesday, February 21, 1984 in room 254-E of the Capitol.

All members were present except:

Senators Meyers and Norvell.

Committee staff present:

Fred Carman, Hank Avila, Rosalie Black

Conferees appearing before the committee:

SB 545 - Senator Jack Steineger; Brian Moline, KCC; George Dugger, Dept. of Aging; Claire Ewert, American Association of Retired Persons; Maxine Durrant, Delegate, Silverhaired Legislature; Ed Reinert, League of Women Voters; Keith Wiens, Energy Coordinator of Harvey County; Charles Seshier, Chanute; Mari Peterson, KS Natural Resources Council; Louis Stroup, KS Municipal Utilities; William E. Brown, Electric Companies Association of KS, KP & L, and Gas Service Company

The meeting was called to order by Senator Talkington, Chairman, to discuss SB 545 which, if passed, would encourage the KCC to require utilities to offer discounted electric and natural gas rates to residential customers who conserve power.

The Chairman introduced a request for a motor fuels proposal and an assigning certified territories for natural gas proposal.

Senator Johnston moved to introduce the two proposals into committee; seconded by Senator Morris. The committee voted favorably for introduction.

SENATE BILL NO. 545 - HEARING

Senator Jack Steineger explained that while SB 545 addresses the need for conservation by clarifying the authority of the KCC to implement a conservation rate, it does not mandate any action on the part of the commission. He added that the bill is permissive, but clearly removes any question about whether a conservation rate could be implemented under Kansas law. (See Attachment 1.)

Brian Moline indicated that if the measure passes, it will send a clear legislative signal of necessity to the KCC which would probably incorporate conservation rates. In answer to a question from the Chairman, Mr. Moline said that unless legislative intent is specifically lined out, the KCC is not certain whether to set such a rate, even though it presently may have authority. Also, if the

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES,  
room 254-E, Statehouse, at 9:00 a.m./p.m. on February 21, 1984.

SENATE BILL NO. 545 (con't) - HEARING

commission sets conservation rates, it will be eventually questioned before the court of appeals which would consider the fact that conservation rates were established by the Legislature.

George Dugger from the Department of Aging reported that the last two Governor's Conferences on Aging have identified the cost of utilities as the number one problem for most people over age 65 and that survey respondents overwhelmingly chose reforming of utility rate structure as the best way to help older persons with utility costs. (See Attachment 2.)

Claire Ewert, Maxine Durrant, Ed Reinert, Keith Wiens, Charles Seshar and Mari Peterson supported SB 545 because conservation rates are important management tools that the KCC should have at its disposal to use when that use can be justified by parties appearing before the KCC in rate cases; due to anticipated excess generating capacity, utilities are now cancelling their own programs designed to achieve conservation; and conservation rates would discourage utility companies still having promotional rates rewarding large users to consume more energy. (See Attachments 3 - 5.)

William E. Brown and Louis Stroup opposed SB 545 because placing municipal utilities under jurisdiction of the KCC would increase the cost of operations in an era of increasing rates; KCC jurisdiction could interfere with municipal financing if an order issued by the commission conflicted with bond covenants and could swamp the commission at a time in its history when it's gearing up for historic decisions; conservation rates do not address the problem of peak demand; and utilities believe each class of customer should pay for each unit of energy it uses with a rate based as nearly as practical on the cost of providing that energy to those customers. (See Attachments 6 and 7.)

The Chairman announced that Lon Stanton and Harold Shoaf would present their testimony for SB 545 to the committee tomorrow at 8:55 a.m.

The meeting adjourned at 10:03 a.m.



Please PRINT Name, Address, the organization you represent, and the Number of the Bill in which you are interested. Thank you.

Tuesday, Feb. 21

NAME	ADDRESS	ORGANIZATION	BILL NO.
Gavin Malone	KCC		2545
Nancy Zielke	KDOT		
BILL PERDIE	TOPEKA	KPL/GAS SERVICE	545
William E. Brown	"	KPL/Gas Service	545
Harold Shoop	"	KFC	545
Louis Stroup Jr.		KMU	545
George A. Dugger		Ks Dept. on Aging	545
Lon Stanton	Topeka	NORTHERN NATURAL GAS	545
Poy D. Shenkel	Topeka	KCPCL	545
Matt Seby	Lawrence	Sierra Club	545
Carl Anderson	Topeka	AG	545
Ed Weber	Topeka	League of Women Voters	
DICK COMPTON	HAYS.	MIDWEST ENERGY	SB 545
Char Seiber	Chanute	Taxpayer	SB 545
Ed Reimer T	Topeka	KS League of Voters	545
Mari Peterson	Topeka	KS Natural Resource Council	545
Keith Wiens	Newton	Harvey County Citizens Energy Project	545
Marlene Dussant	K.C. Kansas - Bd.	KCNHS	545
Nelson Stephens	P.V. Ka	LWW - Johnson City	545
Claire Coumst	P.V. Ka.	SLC AARP	545
John H. B. ...	united way of Topeka		545
Bernice F. Harvey	Lawrence Ks.	Silver Haired Leg.	545
ED SCHAUB	Topeka	SWBT	
Tom Whitford	Topeka	KPCA	

STATEMENT BY SENATOR JACK STEINEGER  
S.B. 545 - FEBRUARY 21, 1984  
SENATE TRANSPORTATION & UTILITIES COMMITTEE

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, IT'S A PLEASURE TO BE HERE AGAIN TODAY TO PRESENT ANOTHER PART OF THE DEMOCRATIC CONSUMER FAIRNESS PACKAGE. I APPRECIATE THE ATTENTION THE COMMITTEE HAS GIVEN THE PACKAGE THUS FAR, AND WITH THE EXCEPTION OF THE DEMOCRATS' "EXCESS CAPACITY" BILL, I THINK WE'RE ABOUT FINISHED WITH BILLS ASSIGNED TO THIS COMMITTEE.

SENATE BILL 545 IS WHAT'S COMMONLY CALLED THE "CONSERVATION RATE" BILL. PERHAPS IT MIGHT BE BETTER NAMED THE "CONSERVATION-INCENTIVE" BILL, BECAUSE THAT'S EXACTLY WHAT THE BILL HAS IN MIND--- PROVIDING INCENTIVES FOR KANSANS WHO DESIRE TO CONSERVE ON THEIR USE OF NATURAL GAS AND ELECTRICITY.

BEFORE DISCUSSING SPECIFIC PROVISIONS OF THE BILL, I WOULD LIKE TO POINT OUT THAT PUBLIC POLICY STRONGLY SUPPORTS THIS BILL. OUR FUNDAMENTAL PREMISE, WHICH IS COMPLETELY IN LINE WITH THE PUBLIC POLICY OF KANSAS, IS THAT EVERYONE'S BEST INTEREST IS SERVED BY THE CONSERVATION OF SCARCE NATURAL RESOURCES.

SINCE THE ARAB OIL EMBARGO IN 1973, BOTH THE NATIONAL GOVERNMENT AND LEGISLATURES THROUGHOUT THE NATION HAVE DIRECTED A GREAT DEAL OF EFFORT TO PROBLEMS ASSOCIATED WITH SKYROCKETING UTILITY BILLS AND EXPENSIVE NEW SOURCES FOR HEAT AND ELECTRICITY. MUCH OF THIS ATTENTION HAS BEEN DIRECTED TO SUCH THINGS AS REDUCING THE USE OF NATURAL GAS FOR BOILER FUEL, REMOVING INCENTIVES FOR CONSUMPTION SUCH AS DECLINING-BLOCK RATES, AND FINDING WAYS TO HELP PEOPLE COPE WITH HIGH UTILITY BILLS. AND I MIGHT STATE, PARENTHETICALLY, THAT OLDER KANSANS WHO OFTEN HAVE FIXED INCOMES HAVE BEEN PARTICULARLY HARD HIT BY HIGHER UTILITY BILLS.

IT SEEMS TO ME THAT THE CONSERVATION OF FINITE NATURAL RESOURCES CANNOT BE OVER-EMPHASIZED. HISTORICAL GROWTH IN DEMAND FOR BOTH NATURAL GAS AND ELECTRICITY---OFTEN GENERATED USING EITHER GAS OR COAL---HAS FUELED THE DEMAND FOR NEW---AND VERY EXPENSIVE---SOURCES FOR THESE TWO ENERGY COMMODITIES.

IN THE CASE OF ELECTRICITY, THIS GROWTH HAS BEEN USED TO JUSTIFY DECISIONS TO BUILD EXPENSIVE NEW POWER PLANTS SUCH AS WOLF CREEK. AND I THINK YOU ALL KNOW THE PROBLEMS ASSOCIATED WITH PAYING FOR THE WOLF CREEK PLANT---A PROBLEM WHICH HAS BEEN COMPOUNDED BY THE FACT THAT THE CAPACITY OF THE PLANT FAR OUTSTRIPS THE NEED FOR ITS ELECTRICITY.

S.B. 545/3

AS FOR NATURAL GAS, THE "DEEP" GAS IN OKLAHOMA'S ANADARKO BASIN OR THE "TIGHT SANDS" GAS IN WYOMING ARE GOOD EXAMPLES OF THE EXPENSE INVOLVED IN OBTAINING NEW ENERGY SUPPLIES. IN THE PAST FEW YEARS, WE'VE SEEN CONTRACTS FOR THESE KINDS OF "NEW" GAS AT MORE THAN SEVEN DOLLARS AN MCF. COMPARE THIS TO THE AVERAGE KANSAS PRICE---STILL AROUND \$1.30 AN MCF---AND YOU BEGIN TO GET AN IDEA ABOUT THE EXPENSE INVOLVED IN LOCATING AND DEVELOPING THESE NEW GAS SOURCES. AND THOSE EXPENSES, I MIGHT ADD, ARE ULTIMATELY PASSED ALONG TO RATEPAYERS, ONE WAY OR ANOTHER.

AGAINST THIS BACKGROUND, THE NEED FOR CONSERVATION IS CLEAR, JUST AS THE BENEFITS OF CONSERVATION ARE CLEAR. CONSERVATION WOULD MEAN THAT EXPENSIVE NEW ELECTRICAL PLANTS COULD BE DELAYED, OR PERHAPS NOT BUILT AT ALL. CONSERVATION WOULD MEAN THAT NEW SOURCES OF NATURAL GAS---ALL OF THEM EXPENSIVE---WOULD NOT BE NEEDED FOR MANY YEARS. CONSERVATION, BY HOLDING DOWN THE GROWTH IN DEMAND, WOULD REMOVE THE CONSTANT PRESSURE FOR HIGHER RATES CAUSED BY THE CONSTRUCTION OR ACQUISITION OF NEW, VERY-EXPENSIVE POWER SOURCES.

S.B. 545/4

THESE ARE THE GENERAL BENEFITS WHICH WOULD FLOW TO ALL USERS OF NATURAL GAS AND ELECTRICITY IF CONSERVATION BECAME THE RULE AND NOT THE EXCEPTION. AS FOR SPECIFIC BENEFITS, A CONSERVATION RATE, BY SETTING A LOWER PRICE FOR A LOW VOLUME OF HEAT OR LIGHTS, WOULD HELP "CONSERVING" CUSTOMERS BY HOLDING DOWN THEIR MONTHLY UTILITY BILLS. IN THE CASE OF OLDER KANSANS AND OTHERS ON FIXED INCOMES, THIS APPROACH COULD BE PARTICULARLY VALUABLE.

AS FOR THE BILL ITSELF, IT ADDRESSES THE NEED FOR CONSERVATION BY CLARIFYING THE AUTHORITY OF THE KANSAS CORPORATION COMMISSION TO IMPLEMENT A "CONSERVATION" RATE, SHOULD THE K.C.C. CHOOSE TO DO SO. AS ENVISIONED BY THE AUTHORS OF THIS BILL, A CONSERVATION RATE WOULD SET A LOWER PRICE PER MCF OF NATURAL GAS OR PER KILOWATT HOUR OF ELECTRICITY FOR USERS HOLDING THEIR USE TO MINIMUM LEVELS.

THE LOWER PRICE WOULD PROVIDE THE INCENTIVE. THE CONSERVATION WOULD BE UP TO THE CONSUMER.

I ALSO WOULD POINT OUT THAT SENATE BILL 545 DOES NOT MANDATE ANY ACTION ON THE PART OF THE CORPORATION COMMISSION. THE BILL IS PURELY PERMISSIVE, BUT IT CLEARLY REMOVES ANY QUESTION ABOUT WHETHER A "CONSERVATION" RATE COULD BE IMPLEMENTED UNDER KANSAS LAW.

S.B. 545/5

IN CLOSING, I THINK IT'S FAIR POINT OUT THAT PROGRAMS DESIGNED TO ACHIEVE CONSERVATION OF ELECTRICITY ARE NOW BEING CANCELLED BY SOME UTILITIES. WHILE I CAN UNDERSTAND THEIR SHORT-TERM REASONS, GIVEN THE FACT THAT MASSIVE AMOUNTS OF EXCESS GENERATING CAPACITY WILL SOON BE AVAILABLE IN KANSAS, I STILL BELIEVE EVERYONE'S LONG-TERM INTERESTS ARE BETTER SERVED BY INCREASED CONSERVATION, NOT INCREASED CONSUMPTION.

THANK YOU VERY MUCH.



TESTIMONY ON SB 545  
BEFORE THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE  
By Kansas Department on Aging  
February 21, 1984

Bill Summary:

Requires public utilities to file and implement conservation rates for residential customers.

Bill Brief:

1. Authorizes the KCC to require, approve, or allow conservation rates to go into effect for residential electric and natural gas customers.
2. Requires the KCC to order public utilities to file and implement such rates.
3. Includes in the definition of a "public utility", municipal and certain other utilities.

Testimony:

The Kansas Department on Aging (KDOA) strongly supports SB 545. Conservation rates are one of the policy steps necessary to meet the energy assistance needs of the elderly and the poor. We are all familiar with the large increases in natural gas prices in recent years. Future years may well bring even larger increases in both gas and electricity prices.

The burden of these increases is not borne equally. Low-income households spend almost four times as much of their income on home energy costs as do median income households. The elderly are especially burdened due to their susceptibility to extremes of temperature. Hypothermia, or abnormally low body temperature, is estimated to be the sixth leading cause of death among the elderly. Heat-related illnesses are also a major health risk for the elderly. Thus, for reasons of health, the elderly have to keep their homes warmer in the winter and cooler in the summer than the average person.

The elderly themselves have recognized these problems and expressed their opinion on solutions. KDOA surveys taken at the last two Governor's Conferences on Aging have identified the cost of utilities as the number one problem for most people over age 65. Survey respondents overwhelmingly chose reforming of utility rate structure as the best way to help older persons with utility costs.

The Kansas Coalition on Aging, the State Advisory Council on Aging, the Public Assistance Coalition of Kansas, and the First Kansas Silver Haired Legislature have all endorsed conservation utility rates for residential customers.

The Kansas Department on Aging supports the concept of a conservation (or inverted block) utility rate structure as an equitable way to help solve the energy assistance problems of the elderly and the low-income. Conservation rates are rates in which successive blocks of energy used are priced at higher levels. They provide a specific incentive to conserve and more truly reflect the replacement cost of energy consumed.

With conservation rates, large volume residential energy users, who contribute more to peak demand and accelerate the depletion of non-renewable energy resources, pay more. People who conserve would pay less. There is ample evidence that most low-income and elderly would fall into the small user category.

The tables attached to this testimony shows that consumption of natural gas and electricity declines in the older age group, in smaller sized households (almost all elderly live in one or two person households), and in lower-income groups. Thus conservation rates would benefit the great majority of low-income and elderly persons.

The ease and low cost of administration are two other advantages of conservation rates. Those few low-income and elderly who would not benefit from these rates can be readily identified by the utilities and targeted for LIEAP, weatherization, or other energy assistance. If experience indicates that additional assistance is still needed, a targeted conservation rate (i.e. lifeline rate) can be implemented.

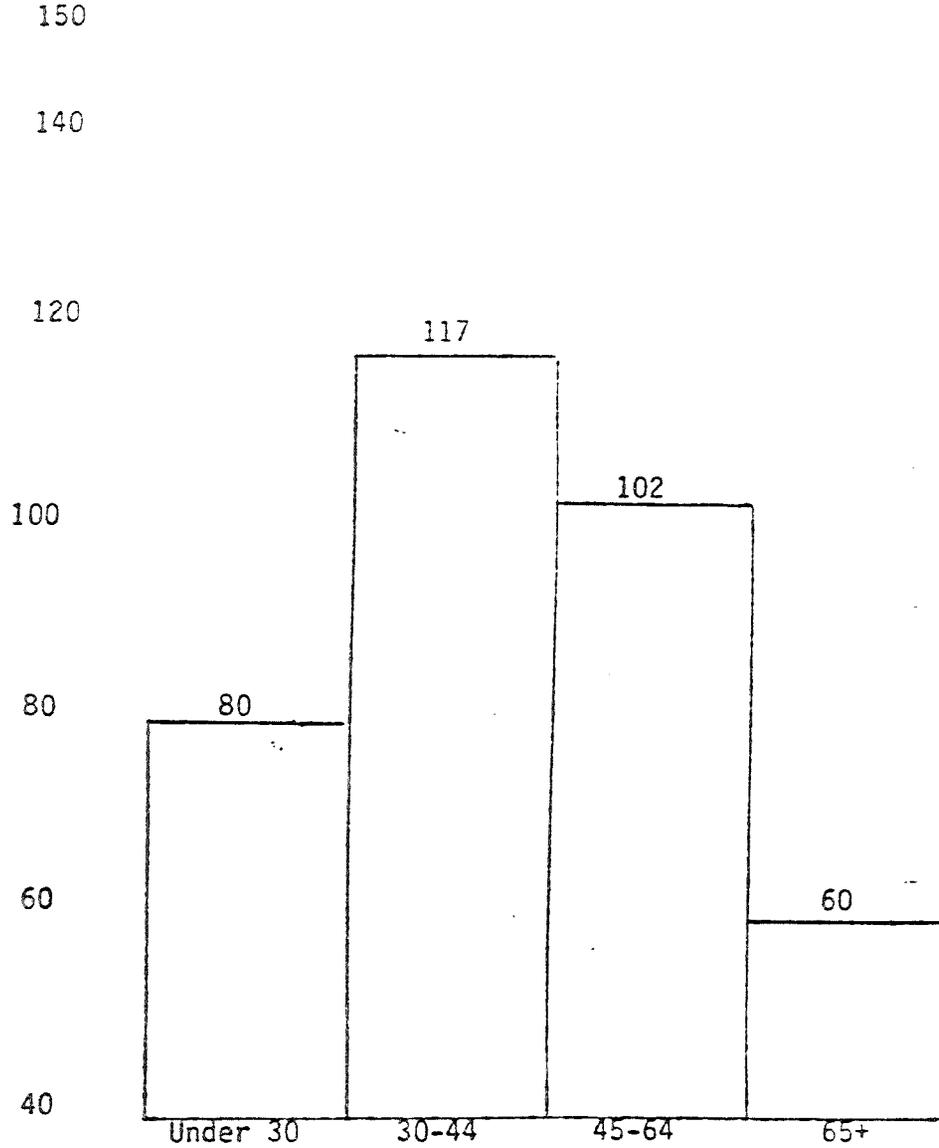
Conservation rates also offer the advantage of being able to be phased in. Rates for the initial block of consumption can be frozen and future rate increases only applied to succeeding blocks of consumption. Thus the current basically flat rate structure would be gradually transposed into an inverted rate structure.

KDOA supports conservation rates as a just and reasonable way to help the elderly and the poor cope with high utility bills while allowing all persons to potentially benefit. We urge the Committee to give favorable consideration to this bill.

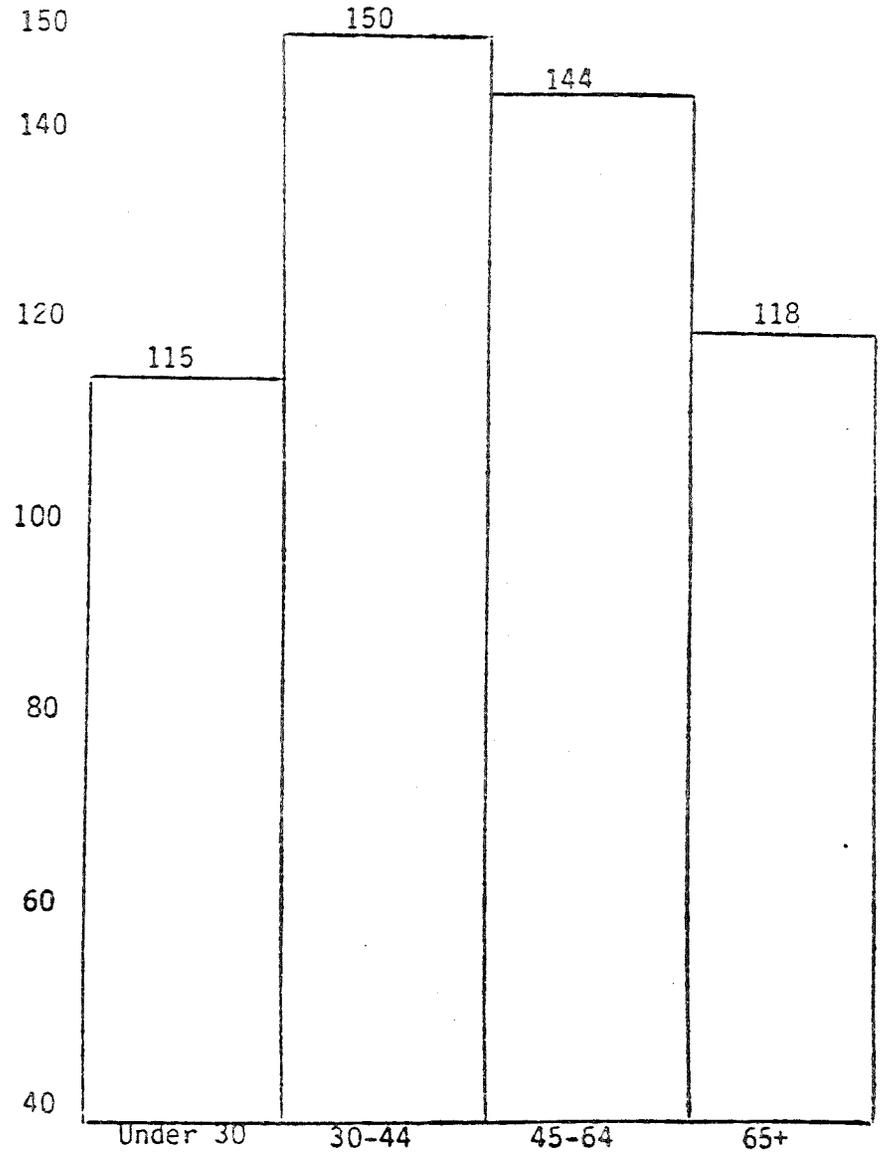
FIGURE 1  
FUEL CONSUMPTION RISES AND FALLS WITH THE LIFE CYCLE

Millions of BTUs  
per household  
150

ELECTRICITY

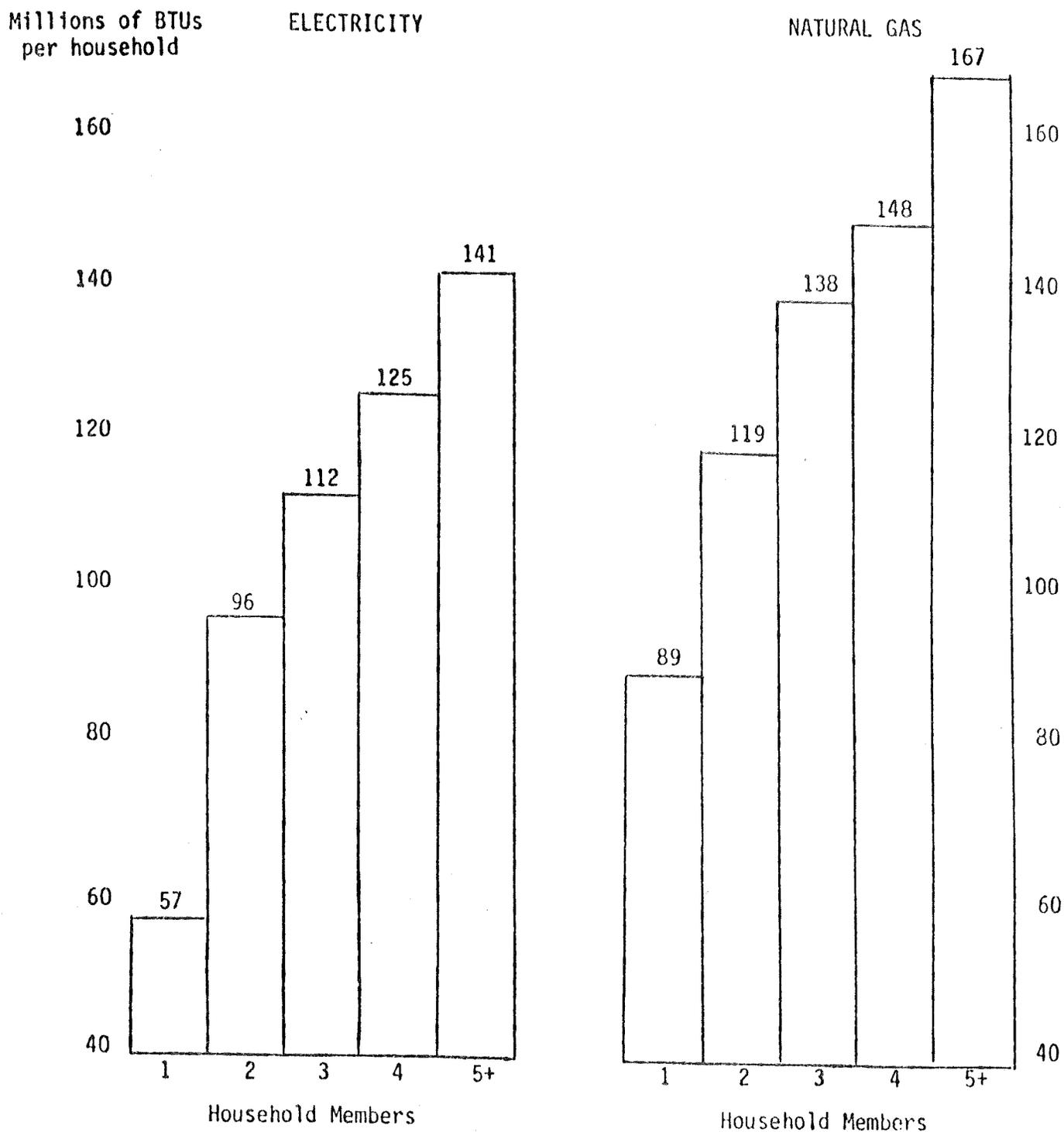


NATURAL GAS



SOURCE: Unpublished tabulations from the 1974-75 National Residential Energy Consumption Survey of the U.S.

FIGURE 2  
FUEL CONSUMPTION RISES WITH HOUSEHOLD SIZE

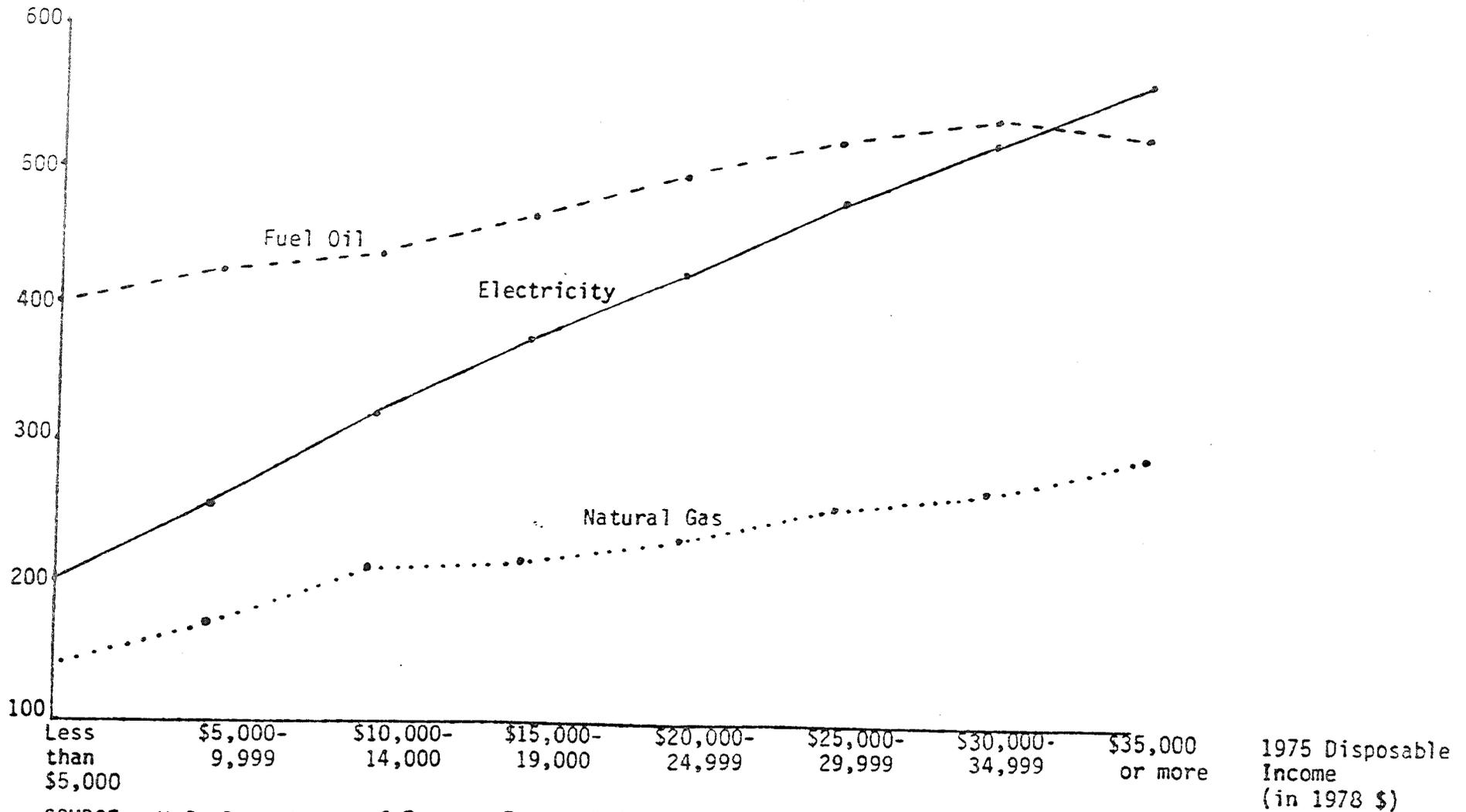


SOURCE: U.S. Department of Energy, Energy Information Administration, Residential Energy Consumption Survey: Consumption and Expenditures, April 1978 through March 1979. July 1980. Tables 4 and 5.

FIGURE 3

FUEL EXPENDITURES TEND TO RISE WITH INCOME--NONELDERLY

Annual expenditures  
per household

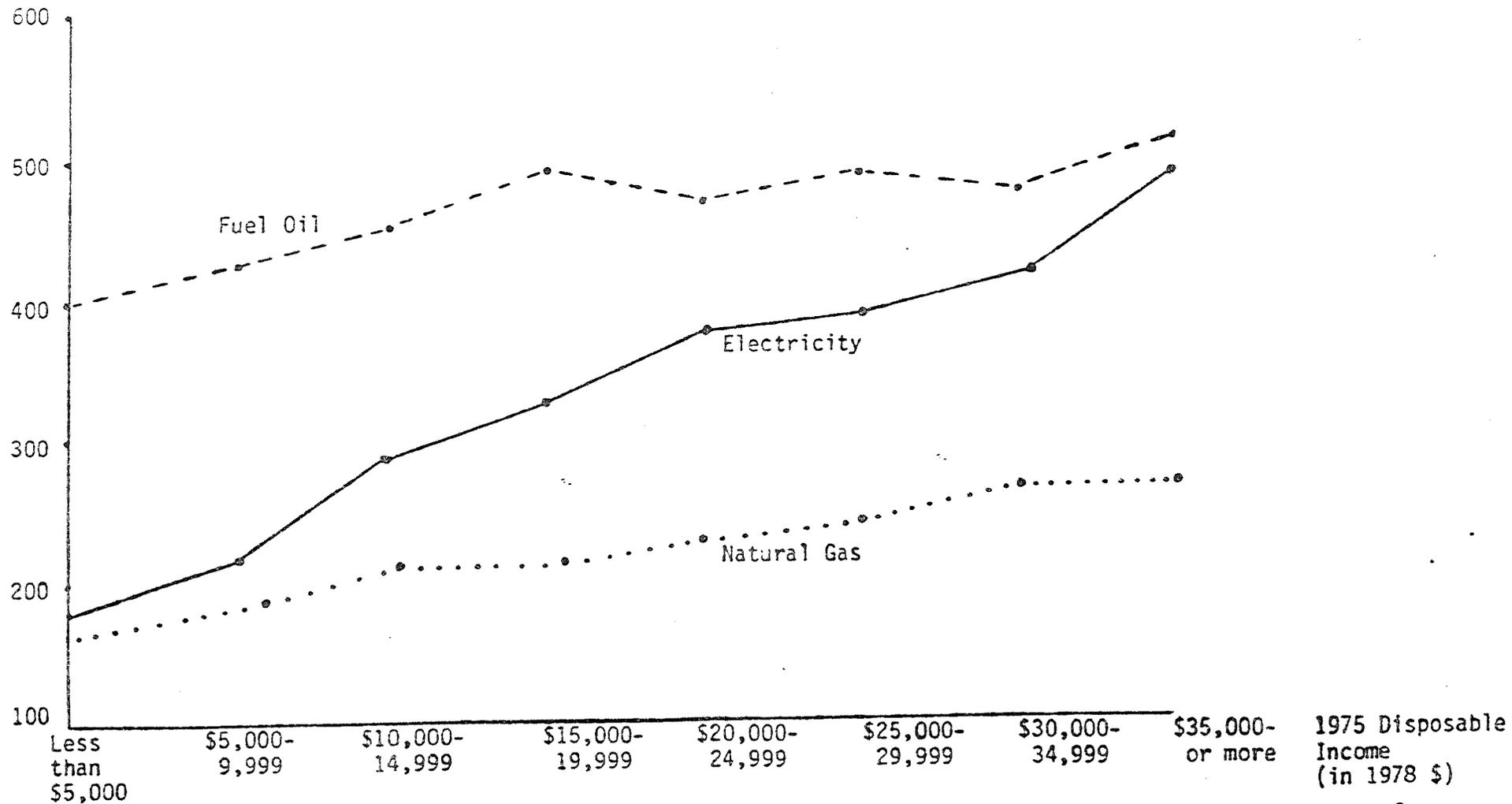


SOURCE: U.S. Department of Energy, Energy Information Administration. Analysis Report. A Comparison of Energy Expenditures by Elderly and Non Elderly Households - 1975 and 1985. May 1980. Table A-12.

FIGURE 4

FUEL EXPENDITURES OF ELDERLY HOUSEHOLDS ALSO  
TEND TO RISE WITH INCOME

Annual expenditures  
per household 1974-75



SOURCE: U.S. Department of Energy, Energy Information Administration. Analysis Report. A Comparison of Energy Expenditures by Elderly and Non Elderly Households - 1975 and 1985. May 1980. Table A-12.

FIGURE 5  
INCOME AND ELECTRIC ENERGY  
CONSUMPTION IN KANSAS

<u>ELECTRIC CONSUMPTION PER CUSTOMER</u>					
Income Group \$/yr.	Portion of Population in Income Group	<u>USE PER CUSTOMER</u>			
		Based Upon Battelle SHAPES Model		Based Upon DPRA Survey	
		kwh/yr	kwh/mo	kwh/yr	kwh/mo
\$0 - 6,499	5.44%	5162	430	5198	433
\$6,500 - 9,999	4.69%	5945	495	6168	514
\$10,000-14,999	8.24%	6534	545	7279	607
\$15,000-19,999	12.04%	8316	593	8702	725
Over \$20,000	69.59%	11077	923	12610	1051

SOURCE: "LIFELINE ELECTRIC RATES KANSAS RESIDENTIAL ENERGY CONSUMERS MINIMUM ELECTRICAL NEEDS AND CUSTOMER ELIGIBILITY CRITERIA," Development Planning & Research Associates, Inc., May 1981 — a research project commissioned by the Kansas Corporation Commission. The data shown reflects consolidation of Tables 8 and 14 pg 5-19 of source.

# HARVEY COUNTY CITIZEN'S ENERGY PROJECT

Harvey County Courthouse/Newton, Kansas 67114/316-283-6900

February 21, 1984

Testimony before the Senate Transportation and Utilities Committee on SB 545

*Cannot identify #3-5  
Achs as shown in minutes.*

My name is Keith Wiens. I am director of Harvey County Citizen's Energy Project, which is funded by a federal grant and the Board of Harvey County Commissioners. Harvey County Citizen's Energy Project was formed in 1980 to develop a county-wide plan which would identify potential for energy conservation and recommend how to implement that potential at the local level. I developed this plan by organizing 12 committees with over 125 people, looking at industrial, institutional, and residential buildings; transportation, agriculture and financial options. Citizen's Energy Project is currently implementing the residential phase of the energy plan by providing energy education, energy audits and consulting, referrals to local businesses and low income weatherization and education.

Support for energy conservation is very strong in Harvey County. Many homeowners and business managers have taken steps to use energy more efficiently. However, as I solicited input from community leaders for the county energy plan, I frequently heard the complaint that if we conserve, utility companies will just raise rates, so why should we do anything? This feeling of powerlessness was one of the hardest obstacles to overcome in developing local solutions to rising energy costs. Implementation of conservation rates would provide a tremendous psychological boost for individuals and communities. People would gain some control over the price of energy they bought. If they wanted to pay less they could take steps to reduce their use.

According to the Kansas Survey by the Wichita Eagle-Beacon, 76 percent of Kansans feel utility issues are a very important issue for this legislature to deal with. From my experience in Harvey County, I have no trouble believing that. A lot of people are very angry at utility companies for raising rates. Often this anger is directed at local utility workers and officials who have absolutely no control over prices. These workers have been providing excellent service for decades and are established community members, but since they are closest to the consumer, they hear the brunt of the consumer's anger.



# HARVEY COUNTY CITIZEN'S ENERGY PROJECT

Harvey County Courthouse/Newton, Kansas 67114/316-283-6900

Again, I believe that conservation rates would lessen that anger and help turn the attention to energy conservation measures as the solution for people who want to lower their utility bills.

Another reason I would like to see conservation rates implemented is that it could help lower taxes. Two years ago the Board of Harvey County Commissioners began providing tax dollars to our local community action agency to help low-income persons pay their utility bills, and this year the city of Newton has begun providing funds as well. Last year the County Commissioners authorized me to develop a project which would reduce the need for this type of cash assistance. They recognized that they were throwing money down an empty hole by helping pay people's bills without doing anything about the houses these people lived in, which were among the most energy-inefficient houses in the county. The approach that we are developing involves education in the home about the measures they can take themselves to conserve energy and how their lifestyle can affect energy use. We then weatherize the house, selecting appropriate low-cost items from a list of 50 developed by the Department of Energy. We are modelling our weatherization after a service offered by Sentinel Corporation, which is averaging 40 percent savings nationally.

Harvey County is committed to helping low-income people who are having trouble paying their bills. I believe conservation rates will help us bring these bills down to a reasonable size. Conservation rates by themselves will not solve the problem but will increase the effectiveness of weatherization and education at the local level.

Conservation rates could help utility companies in two important ways. One, it would help lessen the animosity which currently exists between utilities and some customers. Two, it would help prevent people from removing themselves completely from electric or gas lines. While I support the use of alternative energy sources by homeowners, I think it is rarely cost-effective to rely on these sources completely. I don't think we need to eliminate our use of natural gas and electricity, just use it more efficiently.

In summary, I support the establishment of conservation rates because it helps those who help themselves.

My name is Charles Seshier. I am a City Commissioner, a former legislative representative of Unit 8 of the National Association of Retired and Veteran Railroad Employees, a member of the Kansas Natural Resource Council, a member of The Land Institute, an alternate to the steering committee for the first Silver Haired Legislature, and a utility ratepayer. Each of those interests and occupations have led me to inform myself about, and seek support for, Senate Bill 545, and for the desirability of conservation rates for residential customers of both gas and electric utilities.

There are two major reasons for supporting conservation rates: 1. To preserve for as long as possible our finite fossil fuels; and 2. To equably assess the ratepayer for their actual cost of each additional unit used (referred to as "marginal cost rating"). I shall leave all comment on the preservation of our natural resources to others better informed on environmental issues than myself, and will confine my remarks to the equity of such conservation rates as baseline rates, inverted block rates, demand rates, time-of-day rates, interruptable rates, seasonable rates, and load management rates.

I ask you to consider the following scenario based on actual experience: between 20 to 25 per cent of all residential customers are small users of gas and electricity, contributing next to nothing to the electrical peak in the summer because they do not use air conditioning. They have minimal useage of gas during the winter peak because they have choosen to live in one or two rooms, are heavily insulated or supplement their use with some other source (solar or wood). These small users are comprised of all segments of our population: rich, poor, black, white, young and old. However, a disproportional number of small users tend to be older residents on a fixed or limited income. For the following reasons these small customers should be billed under conservation rate schedules:

1. Small customers tend to have stable rates of energy use. Larger customers are growing the fastest and creating the need for

expensive new power facilities and sources, so they should pay a larger portion of the utilities' costs. Studies have shown that over a 5 year period, large residential users increased their electrical useage three times as fast as small ones.

2. Small users usually have better load factors than large users, and since their peak loads aren't as big compared to their average load, they tend to be cheaper to serve.
3. Small users also tend to be more reliable than large users, since they lack electric heating, air conditioning, and a need for large gas loads. Accordingly, their demands don't vary with weather conditions. Economists argue that large users with unreliable, temperature sensitive loads should be charged higher rates.
4. Small users tend to be low-income customers who live in older neighborhoods, where distribution facilities are older and more fully depreciated on the utilities' books.
5. Small users tend to live in areas of high population density, making distribution costs less.
6. Economies of scale, once touted by utility executives, no longer exists in the utility business. Promotional rates now raise the utilities' costs, since new power plants and gas sources cost so much more than existing ones. Accordingly, discounts for large customers should be discontinued.
7. When larger users' rates are underpriced, utility costs increase faster than revenues, and load factors tend to fall. This forces utilities to ask for repeated rate increases to stop this revenue erosion. The only way to break revenue erosion is to charge on-peak users the full marginal cost of adding new capacity to serve them.
8. Present rate structures frequently have the costs of building expensive new plants or gas sources to serve rising demand loaded into the initial blocks of the rate structure, leaving small customers with most of the burden for the cost of new capacity. Thus demand rates are allocated unfairly.

9. At the same time, equity considerations suggest that utilities with irreplaceable, low-cost energy source, such as existing hydroelectric dams or long-term, low priced gas contracts, should allocate these scarce resources evenly among their customers-regardless of useage. Currently, most utilities charge rates based on the "rolled in" average cost of all their sources and supplies. Thus most energy from economical and irreplaceable sources and supplies finds it way to a utility's largest customers.
10. As well, the peculiar economics of the utility industry suggests that the selective use of "marginal cost pricing" justifies reduced rates for small customers. To charge small users the higher costs associated with marginal costs, would be creating enormous profits for the utilities. These marginal costs should be charged to the higher-useage, faster growing on-peak users.
11. On a practical, less general basis, it is obvious that none of this States' low-peak, small users that we're speaking of, were responsible for any of the 50, 60, 70, and 80 percent cost increased placed in the rate base because of the Sunflower Plant and Wolf Creek plant in the electric utilities, and for the Wyoming, Louisiana, and Mexico pipelines' take-or-pay contracts in the gas utilities. But they will surely pay for them under the current method of pricing capacity, to our small users.  
  
A nationwide study of electric utility rate design in 1977 commissioned by the National Association of Regulatory Utility Commissioners and others reached the same exact conclusions reported by the rate hearings required under the Public Utility Regulatory Policies Act of 1978. (PURPA) That documented conclusion was that "conservation rates designed as structured upon a utilities' incremental or marginal cost most nearly meets the litmus test required by society's need for, 1. The conservation of energy, 2. Efficiency in the use of facilities and resources, and 3. Equitable rates to consumers."

As a direct result of the passage of the National Energy Act of 1978 and the results of these studies, most states, and many large utilities in all states, adopted many of the conservation rate measures for their customers, almost all of which targeted the small consumer. To vote against SB 545 would be to deny the small users of Kansas the opportunity to be rewarded for achieving goals and actions that serve all of Kansas' utility customers.

To address another portion of the bill, Section 4 defines municipally owned and operated utilities as a "public utility" for the purpose of SB 545. I am a commissioner residing in a city who owns and operates all utility services—gas, water and electricity. A city which, like many unfortunately, still has declining block, promotional rates which reward and encourage large users to consume more, even though the municipal's role model, the KCC, required IOU's to abandon declining block rate structures in 1982. Previously, the State regulatory commission had issued an order to all municipals in 1978 (Docket No. 115, 379-U) to prohibit the master metering of electrical energy furnished to mobile home courts and apartments; and under KSA 66-131a the commission reserved jurisdiction over municipals for the purpose of setting residential, commercial and industrial heat loss standards and energy efficiency ratios for air conditioners and heat pumps. Both of these steps over normal jurisdictional lines were only for the purpose of setting standards that will result in the conservation of energy. I consider SB 545 only an extension of that same desirable goal.

In summary I feel that SB 545 is a most appropriate response to Kansas's request for utility rates that afford the ratepayer equity, affordability, a safety net, a desirable goal, and a reward for conservation. Thank you.

I am open for questions.

# Kansas Natural Resource Council

Testimony before  
the Senate Transportation & Utilities Committee

by

Mari Peterson, KNRC Executive Director

February 21, 1984

SB 545 Proponent

The Kansas Natural Resource Council is a non-profit, membership organization supported by over 350 members. KNRC lobbies on positions endorsed by Kansas environmentalists at the annual Environmental Lobbying Conference. Conservation rates also have the endorsement of the Kansas Solar Energy Society, The Land Institute, the Kansas Rural Center, and the Board of the Greater Kansas City Chapter of the Missouri/Kansas Solar Energy Associates.

Mr. Chairman and Members of the Committee:

KNRC and the other organizations endorsing this position feel that the conservation of our resources is a value worth promoting through public policy. We recognize the complexity of the issue since, through imperfect market forces, we face a glut of natural gas and electric generating capacity in this state. However, we see two good reasons for passing SB 545 out of committee.

First, the long-run availability of natural gas is declining.

Production peaked in 1973, and all exploration and drilling data show

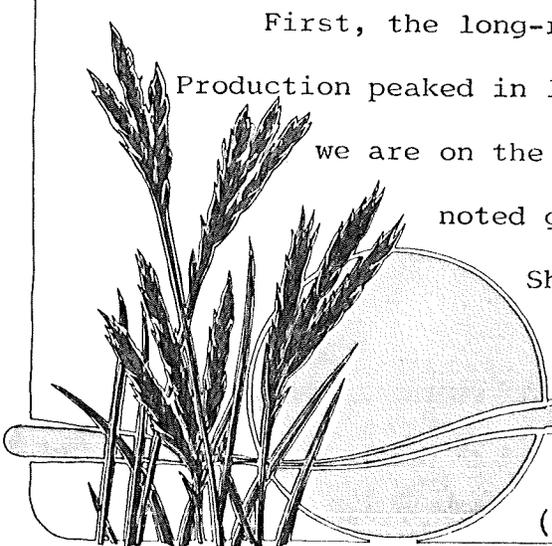
we are on the downside of available natural gas supplies. A

noted geologist\* with the U.S. Geological Survey and with

Shell Oil predicted in the 1950s that we would

reach the mid-point in natural gas availability

(\*M. King Hubbert)



in the mid-1970s. His projections have proven true. He further projected that natural gas will be virtually unavailable to the average person near the year 2020. Though take-or-pay contracts and other imperfect market forces have created temporary gluts, these gluts mask declining availability of the resource.

Since SB 545 enables the Kansas Corporation Commission to implement conservation rates, but does not direct them to do so, we encourage passage of this piece of legislation. As the KCC needs this policy and management tool, it will then be available to them.

Secondly, conservation rates reward energy consumers for their good-faith efforts to conserve energy and use it more efficiently. Many people believe that energy resources should be used efficiently, and we've seen major conservation efforts over the past 10 years. However, there is a growing sense of frustration and cynicism among people who conserve but still find their bills increasing. In the longrun, there is nothing we can do about this. But in the shortrun, these people could be rewarded for their efforts by being charged a lower price per unit of energy when they use less. This is especially advantageous for the elderly and those on fixed incomes. It is not surprising that the Silver-Haired Legislature passed a conservation rates bill. Energy bills are on people's minds, and the public needs the protection of the legislature and KCC in these areas of regulated energy prices.

Conservation rates are an important management tool that the Kansas Corporation Commission should have at its disposal to use when that use can be justified by parties appearing before the KCC in rate cases.

Comments on Senate Bill 545  
February 21, 1984  
Senate Transportation & Utilities Committee

Mr. Chairman, members of the committee. I am Louis Stroup, Jr., executive director of Kansas Municipal Utilities, Inc., a statewide organization of municipally-owned electric, gas and water systems.

We oppose SB 545 for two major reasons:

- Utility rates should be based on the concept of "cost of service" and
- Municipal utilities should not be placed under the jurisdiction of the Kansas Corporation Commission. Such is an infringement upon the Home Rule given our cities by the Kansas legislature.

Traditionally, our municipal electric and gas systems have supported the philosophy of basing rates on the concept of "cost of service" and have opposed the establishment of arbitrary rates since such rates are bound to be discriminatory to some class of consumers. Social problems should not be solved by juggling utility rates. We also feel conservation should be accomplished through education -- not over pricing.

Historically, our cities have governed themselves in utility matters. Decisions are made at the local level by locally-elected officials.

SB 545 would infringe on the rights of cities to govern themselves and most of importantly, would add a great deal to the cost of our utility operations.

Placing municipal utilities under the jurisdiction of the KCC would only increase the cost of our operations in an era of increasing rates. It hinders our efforts to keep the rates as low as possible.

Attch. 6



I do not know what the fiscal impact of this measure would be on our cities, but back in 1977, when a bill was introduced to place municipal utilities under KCC jurisdiction, the estimated cost for auditing alone was \$2 million -- a figure we felt was about \$1 million too low. That figure did not take into account the costs of hearings or of adding KCC personnel to handle the additional work load. In 1977, the estimate for the latter and related support expenses was \$256,290. Again, this would be a low figure in 1984. The 1977 estimates were made by the director of the Kansas Budget Office.

I also would like to point out that many of our municipal utilities are very small and most likely would have to add additional personnel of their own to cope with the additional KCC paperwork and redtape, orders, investigations and other matters.

All this additional expense is to pay for duplicative service since municipals are governed by elected officials who, in our opinion, are more responsive to local needs and situations than an appointed commission at the state level. Local officials, we feel, are more accountable to their consumers.

There are many, many other reasons for opposing placement of municipal utilities under KCC jurisdiction, but I will list only three more:

- State government (courts, legislatures and some KCC chairmen) have historically recognized there is a distinct difference between municipals which are under local control and the private and rural electric sector which would have no governmental control unless the KCC had jurisdiction of their operations.

- KCC jurisdiction could interfere with municipal financing if an order issued by the commission conflicted with bond covenants. There also is the possibility of KCC jurisdiction increasing the cost of financing if investors deemed KCC jurisdiction as being "another risk."

- Putting municipal utilities under the KCC would swamp the commission, especially at a time in its history when it's gearing up for some of the most historic decisions ever -- Wolf Creek and the telephone industry breakup.

Testimony Before

SENATE TRANSPORTATION AND UTILITIES COMMITTEE

Senate Bill 545

By William E. Brown  
Senior Vice President, Finance and Administration

THE KANSAS POWER AND LIGHT COMPANY

February 21, 1984

Mr. Chairman and Members of the Committee:

My name is William E. Brown. I am Senior Vice President, for The Kansas Power and Light Company.

I am here today to speak for members of the Electric Companies Association of Kansas, for The Kansas Power and Light Company for the Gas Service Company, who unanimously oppose SB 545.

First, let me make clear where we stand on this entire question of utility rates, the question of who pays what. We believe each class of customer should pay for each unit of energy, electricity or gas, it uses, with a rate based as nearly as practical on the cost of providing that energy to those customers.

As set out in the bill "Conservation Rates" based on volume can only be considered inverted block rates applied to the whole residential class.

Inverted block rates can be described as rates in which the first several units of energy or block of energy is at a low price and all additional energy at a higher price. This design has not been demonstrated to follow actual cost.

We oppose the concept of conservation rates as set out in SB 545 because they are discriminatory and mandate unequal subsidization between customers or classes of customers.

*Attch. 7*

Conservation rates would provide a minimum amount of electricity or gas at low cost to residential consumers, and would increase rates for use above that minimum amount for all residential customers.

Conservation or inverted block rates will not help all and in fact will increase costs for many. Those customers who live in older homes or who have made appliance or heating and cooling choices in the past and are larger users of energy will see their bills increase. To avoid this, the initial low priced block would have to be very large. This then will place unrecovered costs on other classes.

We are also opposed to "Conservation Rates" since they will not efficiently promote conservation and reduce utility costs.

It is particularly true with utilities where there is a duty to serve. To meet our obligations we must make substantial investments and incur significant fixed costs. Only a portion of the costs actually vary with use. As people conserve only this portion of costs go down. The fixed costs remain and now must be recovered over a smaller number of units sold.

If "Conservation Rates" based on volume are widely used the unit costs can only increase even more rapidly. These rates may encourage conservation but at the wrong time. The wrong time for an electric utility is when it is easy to conserve, when it is 80 degrees and a fan will provide comfort. But, when it is 105 degrees the public demands air conditioning and we must be there to provide the service. We have incurred the fixed costs but

conservation has reduced the number of units sold forcing the price per unit even higher.

To reduce utility costs the rate of growth of peak demand must be slowed down or reduced over a long period before significant savings can be achieved. Conservation rates do not address the problem of peak demand.

In summary, these are far better solutions to todays problems than "Conservation Rates".

These solutions include the KCC orders in 1976 requiring minimum thermal and efficiency standards for all new homes, the ACT or audit for conservation today program, insulation and weatherization programs of many agencies, the direct energy assistance programs for those truly needy and the variety of services offered by the utilities.