

Approved: March 24, 2009
Date

MINUTES OF THE HOUSE ENERGY AND UTILITIES COMMITTEE

The meeting was called to order by Chairman Carl Holmes at 9:00 a.m. on March 19, 2009, in Room 783 of the Docking State Office Building.

All members were present except:

Representative Annie Kuether
Representative Tom Moxley
Representative Richard Proehl
Representative Joe Seiwert
Representative Tom Sloan
Representative Josh Svaty

Committee staff present:

Melissa Doeblin, Office of the Revisor of Statutes
Sean Ostrow, Office of the Revisor of Statutes
Mary Torrence, Office of the Revisor of Statutes
Cindy Lash, Kansas Legislative Research Department
Rena Hansen, Committee Assistant

Conferees appearing before the Committee:

Don Low, Kansas Corporation Commission

Others attending:

Fourteen including the attached list.

The Chairman made an announcement about the conference committee meeting for **SSub for HB 2014**.

Presentation on:

Regulation/Rate Making 101

Don Low, KCC, (Attachment 1) gave a presentation on the basics of how rates are determined for utility charges to customers. He shared about: rate base rate of return regulations, typical kinds of "pro forma" adjustments to the yearly data, capital costs, rate design, rates in addition to base rates, recent rate issues, and rate case procedures. He also included some cost of capital and cost allocation examples.

Questions were asked and comments made by Representatives: Cindy Neighbor, Vern Swanson, Don Myers, Milack Talia, Mike Burgess, Forrest Knox, Rocky Fund, and Carl Holmes.

The last meeting will take place some time between March 23 and April 3.

The meeting was adjourned at 10:31 a.m.

KCC & Utility Ratemaking

Presentation to House Utilities Committee
March 19, 2009

Rate base rate of return regulation

- Used for most utilities except coops, municipals or others where not feasible or desirable-instead use TIER or operating margin.
- Revenue requirements = operating costs + (net rate base x rate of return)
 - Operating costs include depreciation and taxes
 - Net rate base is original cost of assets minus accumulated depreciation (plus an allowance for cash working capital)
 - Rate of return is weighted cost of debt and equity (see attached illustration)
 - Current revenues are also obviously at issue in determining amount of rate change needed

Rate of Return Regulation (cont'd)

- Rates are set for the future – no retroactive ratemaking since it is a legislative function
- But Kansas uses data from a representative historic “test year” (TY) to determine future rates
 - Although calendar year frequently used, only require recent 12 consecutive months
 - Do allow for some known and determinable changes after TY - usually with 6 months as cutoff
 - Extensive information required in application
- Provide for “abbreviated” procedures in some circumstances
 - Distribution coops with less than 15,000 customers
 - Non-class A utilities
 - Filings within 12 months of prior case

Typical kinds of “pro forma” adjustments to TY data:

- Normalization or amortization - to even out abnormalities in TY; e.g. where an expense item is higher than historic trends or should be reflected over several year period
- Annualization - to reflect full year impact of events that only were in effect for part of the TY
- Weather normalization - to reflect revenues that would occur with “normal” weather
- Unreasonable expenses –
 - generally remove expenses that don't benefit ratepayer such as advertising, country club dues, promotions
 - charitable contributions are 50% disallowed pursuant to 66-101f
 - salaries and bonuses are difficult issue
- Allocation of expenses such as office space, salaries, etc. to affiliate or unregulated activity (Cost Allocation Manual (CAM) is required of many companies)

Capital Costs

- Used and required to be used
 - Usually means “in service” but 66-128 creates exception for Construction Work in Progress (CWIP) if 1) commenced and completed in a year, 2) an electric non-nuclear generation facility, or 3) an electric transmission line (> 34.5 kv and 5 miles in length)
 - Actually needed; i.e. not excess capacity
 - Allowance for Funds Used During Construction for CWIP

- Costs are reasonable and prudently incurred
 - Excessive costs due to mismanagement are disallowed
 - Higher costs to provide non-regulated services allocated to those services

Capital Costs (cont'd)

- Rate base rate of return regulation not legally required – end result is test
- Wolf Creek case took “risk sharing” approach
 - Allowed return “of ” but not return “on” physical and economic excess capacity
 - Upheld by Kansas Supreme Court
- Depreciation of facilities is both expense and component of net rate base
 - KCC generally allows remaining life
 - Net salvage issues being addressed in generic

Rate Design

- Determine rates to be charged to customers that in aggregate generate revenue requirements
- Rate Structure for base rates
 - Include flat monthly customer charge, volumetric charges and, for some customers with appropriate meters, demand charge
 - Rates and charges vary for different classes of customers, depending on kinds of costs imposed on system
- Considerations in deciding rates for various classes of customers
 - Statutory requirement that rates cannot be “unduly discriminatory” – treat similar classes of customer differently without reason
 - Fairly apportion total costs among customers benefiting from service by conducting a class cost of service study (see attached illustration)– cost causation is sometimes referred to as “touchstone” of utility rates (*Jones*)
 - Encourage efficient use of services while discouraging wasteful use – changes with circumstances; e.g. excess capacity vs. need for conservation

Rate Design (cont'd)

- Other considerations (Bonbright):
 - Simplicity, understandability, public acceptability and feasibility of application
 - Freedom from controversies as to proper interpretation
 - Revenue stability from year-to-year
 - Rate stability for customers, with minimal unexpected adverse changes

Rates in addition to base rates

- Authorized riders or surcharges that change outside of rate cases.
 - Changing costs of purchased power and fuel are recovered in the monthly Energy Cost Adjustment (ECA) for electric utilities
 - Changing commodity costs of natural gas are recovered in the monthly Purchased Gas Adjustment (PGA) for natural gas utilities
 - Differences between ad valorem tax costs embedded in base rates and current assessments may be recovered in yearly rider
 - Certain natural gas infrastructure costs may be recovered in yearly “Gas Safety and Reliability Surcharge”
 - Electrics may have “Transmission Delivery Charge” to reflect wholesale transmission costs determined by SPP and FERC
 - Westar is allowed to recover costs of environmental facilities through yearly rider
- Riders generally reduce risk but specifically determining impact on ROE is difficult

Recent Rate Issues

- Declining block rates are inconsistent with energy efficiency– but need gradual changes in view of potential significant impact on some customers.
- Want to explore real time pricing and “smart” meters
- KCC found in “442” energy efficiency (EE) docket:
 - It will entertain proposals for new riders that recover significant energy efficiency cost
 - It prefers “decoupling” of revenues from usage as means of removing utility disincentives for EE, if company can show need
 - It will entertain “Straight Fixed Variable” rate design for natural gas companies only since, unlike electric costs, large commodity component of volumetric charge will still encourage conservation
 - It will entertain proposals for “shared savings” incentive for certain kinds of EE programs; How\$mart and low income

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Rate Case Procedures

- KCC has 240 days after filing of rate case application to issue decision
- Company files prepared testimony and basic supporting data with application
- Staff and intervenors normally have about 3 1/2 months to conduct review, including discovery, which involves literally hundreds of data requests with numerous rounds of follow-up requests, and analysis of not only numbers but any proposals for significant changes in tariffs, including new regulatory treatment
- Typical schedule requires staff and intervenors to file testimony in about four months, followed by 2-3 rounds of responsive testimony by parties
- Hearings include both customer public hearing and technical hearings
- After post-hearing briefs, Commission has about 30-40 days to make decision and issue order

