

MINUTES OF THE SENATE UTILITIES COMMITTEE

The meeting was called to order by Chairman Pat Apple at 1:30 p.m. on February 24, 2009, in Room 446-N of the Capitol.

All members were present.

Committee staff present:

Mike Corrigan, Office of the Revisor of Statutes
Raney Gilliland, Kansas Legislative Research Department
Cindy Lash, Kansas Legislative Research Department
Ann McMorris, Committee Assistant

Conferees appearing before the committee:

Don Low, Kansas Corporation Commission

Others attending:

See attached list.

Chair opened the meeting.

Presentation on Electric Energy Rates

Don Low, Kansas Corporation Commission, reviewed the basic formula for rate base rate and provided examples. He discussed how rates are set and the pro forma adjustments to the data. He noted there are two basic criteria in allowing capital costs (1) used and required to be used; and (2) costs are reasonable and prudently incurred. He detailed how rate design determines rates to be charged to customers that in aggregate generate revenue requirements. There are rates in addition to base rates which change outside of rate cases. He discussed recent rate issues and rate case procedures. (Attachment 1)

The next meeting is scheduled for February 25, 2009.

The meeting was adjourned at 2:40 p.m

Respectfully submitted,

Ann McMorris
Committee Assistant

Attachments - 1

GUEST LIST
SENATE UTILITIES COMMITTEE
FEBRUARY 24, 2009

NAME

COMPANY

TOM DAY

KCC

Nelson Krueger

PAR Electric

David Sprunge

Curb

Paul Johnson

Ks Cath Conf

MART BOBANYST

CAPITOL STRATEGIES

Mary Petty

KCC

Corey Mohr

Commerce

Scott Jones

KCP

Mike Reecht

Maecher Braden

John C. Bottarty

Westar

Mick Orsini

Kansas Gas

Angela Carlson

Genue Sraty Public Affairs

Tim Hyster

L.S.

Mark Schweiker

Westar Energy

LARRY BELL

MIDWEST ENERGY

KCC & Utility Ratemaking

Presentation to Senate Utilities Committee

February 24, 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)

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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

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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

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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

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

KANSAS CORPORATION COMMISSION
ELECTRIC RATE CASES
FOR THE FISCAL YEARS 1997 THROUGH 2008

FISCAL YEAR	REQUESTED (MILLION'S)	GRANTED (MILLION'S)	COMPANY	REFUNDS / RATE REDUCTIONS (MILLION'S)	COMPANY
*****	*****	*****	*****	*****	*****
FY 08	\$47.1	\$28.0	KCPL	(\$9.2)	Westar
FY 07	\$42.3	\$29.0	KCPL	\$0.0	
FY 06	\$84.1	\$38.8	Westar	(\$10.0)	Westar
FY 05	\$19.2	\$8.0	Aquila - WPK	(\$10.0)	KCPL
FY 04	\$0.0	\$0.0		\$0.0	
FY 03	(\$1.0)	\$0.0		(\$1.0)	Other
FY 02	\$172.5	\$34.4	Westar - North	(\$51.2)	Westar - South
FY 01	\$0	\$0		(\$1.6)	Other
FY 00	\$0	\$0		(\$3.5)	Other
FY 99	\$0	\$0		(\$22.8)	Westar - \$15.0 Other
FY 98	\$0	\$0		(\$29.2)	Westar
FY 97	\$0	\$0		(\$46.3)	Westar

KANSAS CORPORATION COMMISSION
 GAS RATE CASES
 FOR THE FISCAL YEARS 1997 THROUGH 2008

FISCAL YEAR	REQUESTED (MILLION'S)	GRANTED (MILLION'S)	COMPANY	REFUNDS / RATE REDUCTIONS (MILLION'S)	COMPANY
FY 08	\$5.0	\$2.1	Atmos Energy	\$0.0	
FY 07	\$80.5	\$57.1	Kansas Gas Service - \$52.0 Aquila - KGO	\$0.0	
FY 06	\$0.0	\$0.0		\$0.0	
FY 05	\$6.2	\$2.7	Aquila - KGO	\$0.0	
FY 04	\$82.6	\$43.5	Kansas Gas Service Atmos Energy	\$0.0	
FY 03	\$0	\$0		\$0.0	
FY 02	\$0	\$0		\$0.0	
FY 01	\$0	\$0		\$0.0	
FY 00	\$0	\$0		\$0.0	
FY 99	\$0	\$0		(\$0.5)	Other
FY 98	\$0	\$0		(\$7.7)	Other
FY 97	\$0	\$0.0		(\$0.5)	Other