AARP Real Possibilities
Kansas

6220 SW 29th Street, #300 | Topeka, KS 66614
1-866-448-3619 | Fax: 785-232-1465 | TTY: 1-877-434-7598
aarp.org/ks | ksaarp@aarp.org | twitter: @aarpks
facebook.com/AARPKS

February1, 2018

The Honorable Rob Olson, Chair
Senate Utility Committee – Thursday, 2/1/2018, 1:30 pm, Room 548S
Michael Welton, Committee Assistant – 785-296-7358, Room 236E

Reference: SB 279 – Gas Safety and Reliability Surcharge

Good afternoon Chairman Olson and Committee Members. My name is Ernest Kutzley and I am the Advocacy Director for AARP Kansas. AARP is a nonprofit, nonpartisan organization with a more than 315,000 members living in Kansas. AARP is dedicated to enhancing the quality of life for all as we age. Thank you for this opportunity to provide written testimony in opposition of SB279.

Utilities—such as telecommunications, electricity, natural gas, water, and sewer services—are crucial to health and well-being. People must be able to contact police, fire, medical, and other responders during emergencies; to drink and bathe in affordable, safe water; and to pay a reasonable rate for summer air-conditioning and ample heat in winter. Older Americans particularly need these services and many find that they eat up a sizable share of their household budget.

Utility rates should ensure service affordability for all, reflect prudent use of ratepayer money and fairly distribute costs and savings among consumers, while taking into account households with lower incomes.

Home energy costs make up a sizable portion of household budgets. In recent years, volatile prices for natural gas, electricity, and fuel oil have significantly increased many consumers' costs. One group particularly vulnerable to rapid increases in energy prices is older consumers. Although they consume approximately as much energy as younger people, older Americans devote a higher percentage of their total spending to residential energy costs. They spend a greater proportion of their income to heat their homes (this is true even after statistics are adjusted for weather and home size). Low-income older households spend an average of 10 percent of their income on residential energy. However, in about one out of four cases, low-income older households devote 15 percent or more of their income to home energy bills. Too often older adults with low incomes must choose between cutting back on energy expenditures and reducing spending for other necessities and may thus end up risking their health or comfort.

For many older adults with low and moderate incomes, high and unpredictable home energy prices jeopardize stable home heating and cooling. This increases the possibility of their homes being too hot in summer and too cold in winter. Such exposure can lead to a host of adverse health outcomes, ranging from the aggravation of chronic health conditions to food spoilage to premature death. According to the most recent statistics, exposure to heat and cold kills thousands of people prematurely in the U.S. each year and it also causes many adverse health outcomes that do not prove fatal.

For many consumers, home utility bills are becoming more and more cluttered with new fees and surcharges to pay for everything from the investment in new gas pipelines to environmental compliance costs. The imposition of these surcharges are a departure from the traditional utility rate setting process and regulators need to carefully evaluate utility requests for additional surcharges on a case-by-case basis to determine whether there is a proper balance of meeting utility needs and assuring ratepayer protections.

A surcharge is an additional fee imposed on a ratepayer's utility bill in addition to the base rate charge for utility service. In the past, surcharges were only approved by regulators in rare circumstances to address substantial, volatile and uncontrollable costs that, if *not* addressed outside of a base rate case, could threaten to harm a utility's financial health. Examples of such surcharges include fuel and purchased power adjustment mechanisms for electric utilities and gas cost recovery mechanisms for natural gas distribution utilities. In recent years, however, requests for other types of surcharges and tracking mechanisms by utilities have significantly increased. Indeed, the National Regulatory Research Institute characterizes the use of cost trackers and mechanisms as the "latest trend."

Utilities have requested surcharge rate mechanisms as a means to accelerate the recovery of a variety of costs, many of which are not volatile or uncontrollable. In some instances, the use of surcharges and other tracking mechanisms have proliferated so as to be baffling and expensive for consumers and burdensome for regulators to monitor.

Utilities say the surcharges are needed so they can make investments in aging infrastructure and comply with environmental regulations, among other claims, without compromising their financial health. Utilities also claim that the surcharges will result in smaller and less frequent rate increases, as well as reduce the frequency of their general rate cases which can be time consuming and costly to process.

But the increasing imposition of surcharges and other alternative ratemaking mechanisms can also defeat some of the primary principles of the rate-setting and regulatory review process. Besides increased costs to consumers, surcharges can also result in such additional undesirable consequences as reducing utility incentives to control costs and shifting utility business risks away from investors and onto customers.

Regulators need to carefully evaluate utility requests for additional surcharges on a case-by-case basis to determine whether there is a proper balance of utility and ratepayer needs. If the regulator decides to approve a utility's request to impose new surcharges on ratepayers, adequate safeguards to protect consumers are a must.

RECOMMENDED CONSUMER SAFEGUARDS

When regulators are considering whether to allow certain expenditures to be recovered via a surcharge or other special rate mechanism, the following consumer protections should be considered, and included, if a surcharge is approved:

- cost recovery should be specific;
- number of surcharges should be limited;
- time period of surcharge should be defined, not indefinite;
- mechanics of surcharges should be structured to benefit the ratepayer;
- related cost savings and efficiency impacts should be incorporated;
- lower return on equity ("roe") to reflect reduced risk;
- reduce frequency of rate cases;
- avoid approval of new surcharges in a settlement;
- audit/review for prudence and reasonableness.

Allowing a utility to recover lost revenues or discrete increased costs through a surcharge can also diminish the utility's incentive to control or reduce expenses because the utility is assured of full cost recovery. Since the utility is passing the cost on to customers, it has less incentive to seek ways to reduce the expense. Furthermore, in a rate case, the utility's costs are carefully scrutinized, whereas cost increases recovered in surcharges can become part of utility rates on an expedited basis, without being subjected to the same degree of review. In rate cases, utilities must provide documentation justifying their requested costs or they may be disallowed. Reviews of costs recovered via surcharges are usually done on a much more limited basis. By allowing a utility to recover cost changes through a surcharge, rider or balancing account, the utility is assured of the recovery of such costs, therefore diminishing the utility's incentive to control expenses, and reducing the utility's financial risk.

CONCLUSION

In the past, surcharges were only permitted in limited circumstances for costs that were substantial, volatile and uncontrollable, and that could harm the utilities' financial health. Examples of such traditional surcharges include fuel and purchased power adjustment mechanisms for electric utilities and gas cost recovery mechanisms for natural gas distribution utilities. In recent years, however, requests for surcharges and tracking mechanisms by utilities have significantly increased for many different types of costs, including capital investments, for specific operating and maintenance expenses, and even for revenue losses. In some instances, the use of special rate-making mechanisms such as surcharges and other tracking mechanisms have proliferated to the point of becoming excessive and burdensome for regulators to monitor. The use of surcharges is a deviation from traditional ratemaking and puts customers at risk for overpaying for safe and reliable utility service. The use of numerous alternative ratemaking mechanisms and surcharges can defeat some of the primary principles of the rate-setting and regulatory review process. Surcharges can also result in undesirable consequences such as reducing utility incentives to control costs, and shifting utility business risks away from investors and onto customers

Such automatic mechanisms can lead to excessive rates, an inappropriate shifting of risks from stockholders to ratepayers, and decreased incentives to operative efficiently. Therefore the rate mechanisms should be denied.

AARP Kansas opposes SB 279. We request you not support this bill.

Respectfully,
Ernest Kutzley