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300 SW TENTH AVENUE ■ SUITE 24-E ■ TOPEKA, KS 66612 ■ (785) 296-2321

MEMORANDUM

To: Chairman Olson and Members of the Committee on Utilities
From: Matt Sterling, Assistant Revisor of Statutes
Date: February 1, 2018
RE: Senate Bill 279

Senate Bill 279 amends K.S.A. 66-2202, 66-2203, and 66-2204 of the gas safety reliability policy act and gas system reliability surcharges (GSRs). The bill makes several changes to definitions used in the act, cost recovery for infrastructure expenses, and changes to GSRs changes.

Under current law, natural gas public utilities can file once a year for a rate change with the Kansas Corporation Commission for a GSRs that is sufficient to recover the utility's appropriate pretax revenue. The GSRs is a monthly fixed charge that is allocated within the classes of customers of a natural gas public utility.

Under current law, the KCC may not approve a GSRs that would produce annual GSRs revenues that exceed 10% of the natural gas public utility's base revenue level currently approved by the commission and the initial GSRs proposed by a utility for residential customers cannot exceed \$.40 over the base rates in effect and subsequent increases to the GSRs for residential customers cannot increase by more than \$.40. SB 279 would increase the annual GSRs revenue cap from 10% to 20% and increase the caps on residential customer increases from \$.40 to \$.80.

SB 279 would also make a number of changes to definitions that are used throughout the act. Every 12 months, a natural gas public utility is required to reconcile the difference between the revenues resulting from a GSRs and the appropriate pretax revenues. The bill would change the definition of "appropriate pretax revenues," "eligible infrastructure system replacement," and "natural gas utility plant projects" and adds definitions of "regulatory asset" and "system security."

Under current law, "appropriate pretax revenues" means the revenue necessary to produce net operating income equal to the utility's weighted cost of capital multiplied by the net original cost of eligible infrastructure system replacements, including deferred income taxes, depreciation of such replacements that are in a current GSRs. Under current law, "eligible infrastructure system replacement" means natural gas public utility plant projects that do not increase revenues by directly connecting the infrastructure replacement to new customers, are in service and required to be used, and were not included in the utility's base rate base.

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Under the bill, natural gas utility plant projects that are considered eligible infrastructure system investments that are part of the consideration of necessary operating revenues in determining a utility's appropriate pretax revenues will now include natural gas meters, system security costs, investments made pursuant to the utility's safety and risk management programs. In addition to eligible infrastructure system investments, the bill would also add regulatory assets to part of the determination of a utility's appropriate pretax revenues.