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Before the House Committee on Energy, Utilities, and Telecommunications

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Neutral Testimony on Substitute for House Bill 2435

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On Behalf of The Staff of the Kansas Corporation Commission

Chair Delperdang, Vice Chair Wilborn, Ranking Minority Member Ohaebosim, and members of the Committee, thank you for the opportunity to provide testimony to your Committee today on behalf of the Staff of the Kansas Corporation Commission (KCC or Commission).

Executive Summary

The Staff of the KCC is neutral towards the passage of Sub. for HB 2435. This bill amends the existing Gas Safety and Reliability Policy Act, K.S.A. 66-2201 through 66-2204, for three specific adjustments. Those changes are as follows:

1. The rate cap is increased from $.80/month per residential customer (per year) to $1.35/month per residential customer (per year).
2. The GSRS was changed to allow for the inclusion of growth-related capital expenditures, as well as other investments in plant, facilities, and equipment, excluding allocated corporate costs.
3. The timeframe for a Commission Order is reduced from 120 days to 90 days, while still preserving the time period for KCC Staff review of the filing.

When we testified in opposition to the original HB 2435, we recommended against allowing gas utilities to utilize Plant in Service Accounting (PISA), due to the existence of the GSRS Statute. We instead suggested that the Committee consider increasing the size of the residential ratepayer cap in the GSRS Statute, if there was a desire for regulatory reform pertaining to natural gas utilities in the State of Kansas. We participated in a stakeholder group that included KGS, CURB, and later KLER, and the Substitute bill is the result of those discussions. It is my understanding that CURB continues to oppose the bill due to the inclusion of growth-related capital investment in the eligible list of capital expenditures.

Analysis

The question of whether the GSRS Statute should be revised to allow for the inclusion of growth-related capital and to increase the size of the residential rate cap is a policy decision properly before the Kansas Legislature. As such, we are neutral to this proposed change.

There are both advantages and disadvantages to this proposed change. On the one hand, this change will remove the effects of regulatory lag that a utility experiences when it makes capital investments that are not eligible for GSRS today, like growth-related capital expenditures. While these investments will eventually begin to contribute to the revenues of the company, those revenues aren't immediate, so regulatory lag does exist for these investments. Reducing regulatory lag on these investments will reduce whatever disincentive might exist to make these investments today. If gas utilities are more proactive and supportive of making growth-related capital investments, that will contribute to the State's economic development goals, and the energy policy goal of increasing the utilization of the natural gas system in order to spread out the fixed costs of the system over more billing determinants. This legislation should also reduce the frequence of large general rate cases, which are expensive and time-consuming for all involved. This too is a positive result of the proposed legislation.

On the other hand, this statutory change will allow gas utilities in Kansas to recover more capital investments from customers outside of a rate case, at a higher monthly rate cap. The likely result of this legislation will be higher natural gas rates for Kansas customers, albeit at a pace that still allows these rate changes to occur in a piecemeal fashion over time, instead of in one lump sum in a rate case. Specifically, gas utilities in Kansas can raise customer rates by up to $.80/month per residential customer through GSRS filings, after Commission review and approval. This equates to $4.00/month over a five-year period. If this legislation becomes law, gas utilities would be allowed to increase customer bills by up to $6.75/month after that same five-year period.

Derivation of the $1.35 Rate Cap

The $1.35 monthly residential rate cap was calculated by evaluating the impact of inflation since the $.80/month rate cap was last changed in 2019. Then, we evaluated the historical level of growth-related capital expenditures made by KGS during the years 2022, 2023, and 2024. The result was a rate cap of between $1.35 and $1.55 per month. The stakeholders agreed that the $1.35 would be a reasonable rate cap given this analysis, and the fact that $1.35 was the lowest historical cap amount that would have covered growth capital over this time frame.

Conclusion

In the final analysis, Staff considers this bill a well-crafted piece of legislation that narrowly changes the GSRS Statute in three specific ways, as discussed in this testimony. It is a policy call for the Kansas Legislature as to whether or not this legislation should advance out of Committee.

Thank you for the opportunity to offer Staff's perspective on the proposed bill and the opportunity to appear before your Committee.