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Before the House Committee on Energy, Utilities, and Telecommunications

January 15, 2026

Opponent Testimony On House Bill 2435

Submitted by Justin Grady—Director of Utilities
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 **opposed** to HB 2435 in its current form. This bill would establish 100% Plant in Service Accounting (PISA) for all capital expenditures that a natural gas public utility makes in the State of Kansas. It would also allow for natural gas utilities to establish a new surcharge on customer bills (without limitation for how frequently a new surcharge can be filed) to recover the entirety of the increase in its revenue requirement arising out of those capital expenditures. Simply put, this bill would completely insulate natural gas public utilities from the cost containing effects associated with regulatory lag, transferring these costs directly to Kansas ratepayers. Given the existing statutory mechanisms available to natural gas public utilities, like the Gas Safety Reliability Surcharge (GSRS) and the Ad Valorem Tax Surcharge, Staff considers this bill unnecessary and unreasonable in its current form.

This bill is properly within the purview of the Legislature in that it presents an opportunity for the Legislature to set the ratemaking policy that will be applied to all future natural gas utility capital expenditures in Kansas. In short, PISA would increase natural gas rates and diminish a utility's incentive to manage costs in between rate cases or GSRS surcharge filings. On the other hand, PISA may also remove a utility's financial disincentives to proactively invest in natural gas infrastructure to support future economic development or other policy goals of the State.

While this is ultimately a policy decision for the Legislature, in its current form this bill would unreasonably and unnecessarily shift the State's ratemaking framework towards the favor of natural gas utility shareholders at the expense of natural gas utility ratepayers. This bill will improve natural gas utility shareholder earnings, which will be paid for by natural gas utility ratepayers in the State of Kansas. This bill does not contain many of the common-sense customer protections included in the Gas Safety and Reliability Policy Act, K.S.A. 66-2201 et. seq, or the electric utility version of PISA passed by the Legislature in 2024, contained in K.S.A. 66-1293. The customer-protective features missing from this legislation include rate caps, limitations on capital investment types, frequency of filing cadence, etc. Staff recommends that a working group of Kansas energy stakeholders be formed to work through these concerns before this legislation is advanced out of Committee.

Background

Section 2 of the bill would allow natural gas utilities in the State, principally Kansas Gas Service, Atmos, and Black Hills to establish Plant in Service Accounting (PISA) in Kansas, a limited form of which is allowed in Kansas, Missouri and Oklahoma for electric utilities, and for gas utilities in Texas. While PISA is not a commonly found utility ratemaking practice across the United States, it is one way that utility shareholders can be protected from regulatory lag experienced when a utility invests in utility infrastructure in between rate cases or surcharge filings like the GSRS. This regulatory lag occurs in the form of additional depreciation expense that begins to accrue when plant is placed in service, and the capital costs associated with carrying that capital investment, before the investment can be reflected in rates. Today natural gas utilities in Kansas manage these costs between rate cases or GSRS filings until customer rates can be updated to reflect the new plant in service. PISA would accrue these costs into a regulatory asset, which would then be placed in the utility's rate base to earn a return and be amortized over 20 years, beginning with the next rate case.

Section 3 of this bill would allow a natural gas utility in the state to file a surcharge application with the KCC as often as it would like, with 30 days' notice, to recover 100% of the revenue requirement increase associated with any capital investment the utility incurred since its last surcharge filing. This filing would be required to be reviewed and approved within 120 days, which is half the time allotted by Statute for the KCC to review a general rate review. The only limitation in the size of these annual surcharges is that customers' base rates can only increase by 20% through these filings before a rate case must be filed.

Analysis

Section 2 of this bill is largely a policy decision for the Kansas Legislature. **However, if this Section is enacted into law, it will increase natural gas rates in Kansas, relative to existing law. All other things being equal, Kansas customers will pay more for their natural gas service as a result of this proposed legislation.** In the event that Section 2 of this bill receives further consideration from the Committee, there should at a minimum be additional customer protections included in the bill, including caps on the size of the regulatory asset that could accumulate, caps on the total rate impact that this legislation could cause for Kansas natural gas customers, and limitations on the types of investment that could be considered for PISA treatment.

Staff contends Section 3 is unnecessary because the Kansas Legislature already allows natural gas utilities in Kansas to file an annual GSRS surcharge to recover the costs associated with nearly all types of capital investment made by these utilities. For example, in a recent KGS rate case, Staff's analysis determined that KGS was able to recover 72.4% of its capital investment revenue requirement from the period of 2019 through 2024, from its annual GSRS surcharge. This means that KGS recovered from customers 72% of the revenue requirement increase that was due to capital investment, through an annual surcharge on customers bills, without a rate case. Ultimately the Commission granted KGS a base rate increase of $70 million, with the GSRS previously recovering $35 million (for a net increase of $35 million after the GSRS was rebased to zero). This means that half of all of the costs KGS managed during this five-year period were recovered through an annual surcharge on customer bills outside of a base rate case. With these existing statutory tools already in place, Staff is not convinced there is a need for regulatory reform to improve the shareholder earnings of natural gas utilities in Kansas. Thank you for the opportunity to offer Staff's perspective on the proposed bill and the opportunity to appear before your Committee.