CURB: THE CITIZENS' UTILITY RATEPAYER BOARD OF THE STATE OF KANSAS

CURBside News

NEWS FROM THE WATCHDOG FOR RESIDENTIAL AND SMALL COMMERCIAL CONSUMERS OF UTILITIES AUG. 2012

KCPL rate increase request set for October hearing

The hearing for the rate case filed by KCPL in April 2012 has been scheduled for October 1 - 5, 2012. KCPL is seeking an additional 12.9%, or $63.55 million more annually from ratepayers who are already paying 60% more on July electricity bills than they paid in 2007 (assuming a 1500 kWh bill).

About 150 ratepayers took the opportunity to make comments on the proposed rate increase during a July 31, 2012, public hearing. Customer concern about the proposed rate increase was evident at the public hearing, which was so crowded that an overflow room was required.

Customers may submit additional comments to the Commission in writing until September 28, 2012, by email to public.affairs@kcc.ks.gov and by mail to the Kansas Corporation Commission Office of Public Affairs and Consumer Protection, 1500 Arrowhead Road, Topeka, KS 66604.

CURB and its consultants are continuing our review of the application and have been requesting information from KCPL in the discovery phase of the docket. Written testimony will be filed by CURB and other parties on August 22, 2012. A Commission order is required to be issued by December 17, 2012.

KCC Docket No. 12-KCPE-764-RTS

Governor Brownback appoints Albrecht to Commission

On June 25, Governor Brownback announced his appointment of Shari Feist Albrecht to the Kansas Corporation Commission. She will fill the post recently vacated by Ward Loyd, who was not reappointed to a second term.

Ms. Albrecht most recently served as an attorney for the Kansas Department of Health and Environment. Several years ago, she served as Director in the Conservation division of the Commission.

Ms. Albrecht has yet to be sworn in, and her appointment will be subject to final approval by the Kansas Senate.

KGS wants 9.1% increase for residential customers, decrease for commercial customers

Kansas Gas Service, Kansas' largest natural gas utility, has filed a request with the KCC to increase its retail rates by $32.7 million annually.

The utility, which serves 632,000 customers in Kansas, also wants permission to adopt a "revenue normalization adjustment." This annual adjustment would enable KGS to adjust its rates annually to ensure that it receives the full amount of revenues approved by the KCC, regardless of actual sales.

Perhaps most troubling to those who are scrutinizing KGS' proposals is its proposal to increase residential rates by 9.1%, while general sales customers, depending on their size, would get smaller decreases—from 2.5% to 8.2%. The largest general sales customers would get the largest decrease in rates. KGS is also proposing to divide general sales customers into three rate classes, depending on their annual usage.

KGS also proposes to increase the service charges—the fixed monthly charge on the bill—so that the company will recover more money through service charges rather than the delivery charges, which are billed based on volumes used.

The Commission has scheduled three public hearings in August for KGS customers to ask questions and offer comments on the company's proposals. All begin at 6 pm:

WICHITA: Thursday, August 16, Wichita Public Library Auditorium, 223 S. Main;

OVERLAND PARK: Wednesday, August 22, Overland Park City Hall Council Chambers, 8500 Santa Fe Drive; and

TOPEKA: Monday, August 27, KCC First Floor Hearing Room, 1500 SW Arrowhead RD.

The first session of the hearing will include presentations by representatives of the company, CURB and Commission Staff, which will be followed by the opportunity for members of the audience to ask questions. The second session will be a formal public hearing where the members of the Commission will hear sworn comments from customers.

CURB urges customers to attend these hearings and express their views on the company's proposals. Those who are unable to attend may submit written comments to the Commission through October 31, 2012 via mail, email or facsimile, or may call in their comments to 1-800-662-0027.

KCC Docket No. 12-KGSG-835-RTS

KCC approves Suburban settlement; rates to decrease

The KCC has approved a settlement proposed by Suburban Water, the KCC Staff and CURB that will decrease annual rates by $13,500 and impose various requirements on the Basehor water utility to improve its accountability and help assure its long-term viability.

Suburban's customers who have long complained that the family-owned utility was poorly managed should be pleased with the Commission's July 11 order, which requires the company to adopt standard utility accounting practices, eliminate the company's practice of paying personal expenses of employees, and implement a bidding process for outside vendor services that will ensure that relatives of Suburban's owners who offer vendor services do not have an unfair advantage over other vendors.

Additionally, the utility has been ordered to explore options for developing new groundwater supplies and to develop a succession plan that will ensure a smooth transition when Suburban's founder and president dies or retires.

While the Commission could have imposed financial penalties on the company for having failed to meet these requirements, most of which had been ordered in previous dockets, the Commission instead ordered Suburban to file reports monthly, beginning in September, on the utility's progress towards complying with the requirements. According to testimony at the settlement hearing, the utility had already begun the process of meeting the KCC's requirements before the hearing.

Suburban will be permitted to file an abbreviated rate case to recover the last increase in costs of water under its current supply contract with the Kansas City Board of Public Utilities. The company will have to continue making compliance filings monthly until the KCC is satisfied that Suburban Water has complied with all of the requirements of its orders.

KCC Docket No. 12-SUBW-359-RTS

CURBside is brought to you by the Staff of CURB:

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Heat wave drives natural gas prices up

Three-digit temperatures have not only increased electricity bills for cooling, but electric utilities that rely on natural gas generation to meet the demand for energy in hot weather have been putting pressure on natural gas supplies, which has caused an up-tick in wholesale prices.

According to a July 31, 2012, article by Claudia Assis for the Wall Street Journal's *MarketWatch* website, futures prices for September will be 68% higher than they were in April, when storage supplies were plentiful as a result of the warmer-than-usual winter.

However, she doesn't expect the trend to continue, because electric utilities that have a choice between using coal or natural gas for generation will choose the cheaper fuel, and that will help keep downward pressure on natural gas prices. Additionally, as peak electricity demand wanes through the milder fall months, analysts predict that natural gas prices will return to lower levels.

Analysts also predict that gas in storage will be back up to record levels by the end of the year, which should also help moderate gas prices. However, consumers may feel the bite in their natural gas utility bills later on this year, when the higher-priced gas put into storage during the warmer months is sold to utility customers for heating this winter. ♦

Farewell to Stacey Harden

Stacey Harden, CURB's analyst of accounting and economic issues, recently announced she was taking a position with the City of Topeka. She's now working on the city's budget issues.

We're already missing Stacey. She was a talented and skilled member of our team, has a wicked sense of humor, and had also demonstrated her considerable mastery of statistics during college basketball season. But it was a great opportunity for her, and we wish her the best in her new position.

Fire officials caution public about drought-related natural gas leaks

Sedgwick County fire officials warned the public last week that the prolonged drought and heat wave may lead to natural gas leaks. Extremely dry ground can shift and leave room for pipes to buckle and crack. Just as water pipes are susceptible to failure during a drought, so are natural gas lines. But leaking natural gas lines are much more dangerous.

Fire officials asked the public to be alert and to leave the area immediately if the smell of natural gas is detected. Once you've put a safe distance between you and the leak, call 911 to report the leak. Never stay in a building or enclosure if you smell gas. ♦

Court of Appeals denies CURB appeal on KCPL rate rase expense award

CURB's appeal of the Kansas Corporation Commission's January 18, 2012, order on the 2010 rate case expense litigation was denied by the Kansas Court of Appeals on July 27, 2012.

CURB sought review of the Commission's November 22, 2010, and January 18, 2012 decisions to award KCPL $4.5 million in rate case expense incurred by its own attorneys and consultants. CURB urged the Kansas Court of Appeals to limit KCPL to its original $2.1 million claim for rate case expense that was not contested by the parties. CURB's brief can be accessed on the CURB website, and the Court of Appeals decision can be accessed at:
http://www.kscourts.org/Cases-and-Opinions/opinions/CtApp/2012/20120727/107897.pdf

Kansas Court of Appeals
Docket No. 12-107897-A

Call **211**
for information about obtaining assistance with utility bills from agencies and programs associated with the United Way in Kansas.

KCC approves settlements in Mid-Kansas rate cases for Southern Pioneer and Western service territories

Mid-Kansas Electric Company, LLC filed applications for rate increases for the service territories served by Southern Pioneer Electric Company and Western Cooperative Electric Association, Inc. on December 20, 2011, and February 1, 2012, respectively. Unanimous settlements were reached in both cases. The settlement for Southern Pioneer was approved with modifications on June 25, 2012. The settlement for Western was approved in its entirety on June 29, 2012.

Southern Pioneer: Mid-Kansas had requested a revenue increase of $7,992,522 for Southern Pioneer, consisting of an increase to retail rates of $7,620,031 and an increase to LAC of $372,491. Mid-Kansas also included an alternative ratemaking plan that would have initially increased Southern Pioneer's rates by $6,112,948, consisting of a retail rate increase of $5,871,021 and a LAC increase of $241,927. However, the alternative ratemaking plan would also include annual rate updates for five years

Staff had recommended (a) a revised revenue increase of $3,571,070 consisting of a retail increase of $3,393,618 and a LAC increase of $177,452; (b) the disallowance of the alternative ratemaking plan; (c) the disallowance of income tax expense; (d) recommendations on DSC ratios; and (e) other miscellaneous adjustments.

CURB had recommended (a) a revenue increase of $1,787,075 consisting of a retail rate increase of $1,598,135 and a LAC increase of $188,940; (b) the disallowance of the DSC Ratemaking Plan; (c) the disallowance of income tax expense; (d) the disallowance of the prepayment penalty assessed to Southern Pioneer when it bought out of RUS debt; (e) use of depreciation rates established by the Commission on January 10, 2012, for Mid-Kansas assets; (f) recommendations on DSC ratios and rate design; (g) tracking of residential usage up to 800 kWh and over 800 kWh per month; and (h) other miscellaneous adjustments.

The parties settled for a $5 million revenue increase, which included a retail rate increase of $4,720,226, and a LAC increase of $279,774.

The settlement also included agreements: to allow Mid-Kansas to file an abbreviated rate case for Southern Pioneer to seek recovery of additional debt service costs in excess of its existing debt of $90,441,809; to require Southern Pioneer to track residential electric usage (as recommended by CURB) which will aid the parties in proposing specific rate designs in future cases; to require Southern Pioneer to file compliance reports made to its lender in a compliance docket; to require Southern Pioneer to perform analysis of the costs, obstacles, tax, regulatory and ratemaking issues related to the potential combination of Southern Pioneer with its parent company, Pioneer Electric Cooperative, Inc.; to make certain changes to the local access delivery service tariff; and to specifically reserve for future litigation issues related to the corporate structure of Southern Pioneer, income tax expense, inclusion of the acquisition premium paid in purchasing the former Aquila assets, inclusion of the $9.7 million RUS buyout premium, and determination of the prudence of the construction projects contained in Southern Pioneer's Work Plan that remain to be undertaken after the date of the settlement.

The Commission approved the settlement agreement with certain modifications on June 25, 2012. The modifications included: requiring Southern Pioneer to make a filing with the Commission within sixty (60) days of the June 25th Order declaring that it will either become a cooperative or merge with PECI (along with a plan and time line for doing so) or the Commission will prospectively regulate Southern Pioneer like any other C-corporation and analyze Southern Pioneer's applications in the same manner it does all other C-corporations it regulates; modifications with respect to the issues reserved by the parties with respect to income tax, acquisition premium, and RUS buyout premium issues as it relates to the corporate structure elected by the Company within the sixty (60) days set by the Commission.

Both Staff and Mid-Kansas have filed petitions for reconsideration of the Order Approving Settlement Agreement with Modifications, which are pending decision by the Commission.

Western: The application filed by Mid-Kansas included a revenue deficiency of $729,416 for the Western service territory, consisting of an increase to retail rates of $871,695 and a decrease to LAC revenue of ($142,279). CURB had recommended a a revenue increase of $422,134 consisting of a retail rate increase of $422,134 and no change in the current LAC. Staff had recommended a revised revenue increase of $367,425 consisting of a retail increase of $535,588 and a LAC decrease of $168,163.

The settlement approved by the Commission included an overall revenue increase for the Western service territory of $550,003, which consists of a retail rate increase of $699,770 and a LAC decrease of $149,767. In addition, the parties agreed that Western would to make certain changes to the local access delivery service tariff and evaluate the economics of tracking residential usage to allow parties to make rate design proposals in future rate cases.

KCC Docket Nos. 12-MKEE-380-RTS and 12-MKEE-491-RTS

Atmos settlement pending before KCC

Recently, the KCC heard testimony on the settlement reached between Atmos Energy and the Commission Staff that, if approved, would reduce the rate increase requested by Atmos from $9.7 million to $2.8 million.

CURB would have supported the settlement if the parties had agreed on an appropriate return on equity to be used to calculate the return Atmos' Gas Safety and Reliability Surcharge. Alternatively, CURB would have supported the settlement if the parties had agreed to request that the Commission determine an appropriate return on equity for calculating the return on Atmos' surcharges. However, no agreement on the ROE could be reached.

CURB chose not to oppose the settlement, because its terms were much more favorable to customers than Atmos' original proposals. Atmos agreed to adopt Staff's position on depreciation rates, agreed to abandon its request to recover costs related to gas storage in the energy cost adjustment, and agreed not to implement its proposed "Customer Rate Stabilization" surcharge, which CURB opposed. Staff also agreed not to insist on substituting this surcharge with a straight-forward decoupling mechanism, which CURB also opposed. The settlement adopted a rate design very similar to the design that CURB had recommended.

CURB continues to maintain that it's high time the Commission determined the appropriate level of profit for a natural gas utility. In Atmos' last rate case, a Staff witness who has worked at the KCC for over twenty years testified that he thought it was about 1999 when the Commission last set an ROE for a natural gas utility. It's been so long because most natural gas rate cases have been settled since then. But with the advent of surcharges like the GSRS that allow the utility to earn a profit on the capital investment costs recovered through the surcharges, CURB believes that a fair and reasonable profit level should be determined that reflects today's economic conditions.

Aside from that issue, CURB thinks it is a good settlement for Atmos' customers. It will provide the company sufficient revenue to cover the costs of recent infrastructure investments, while limiting the impact on Kansas customers who have been battered by the economic problems of the past few years.

The Commission's decision on the settlement is due out by September 24.

KCC Docket No. 12-ATMG-564-RTS

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KGS seeks new surcharge

Kansas Gas Service Company wants the Commission to put a new surcharge on customer bills. KGS calls it the Infrastructure Replacement Program (IRP) surcharge. The company would use the surcharge to collect $70 million in costs to replace old cast-iron pipe on KGS's system over an eight-year period. There would be $16 million in additional replacement costs that will be recovered through the Gas Safety and Reliability Surcharge, another line-item surcharge that is already on customer bills.

KCC Staff has reviewed the request and is recommending that the Commission approve the surcharge. KCC Staff argues that replacing the cast-iron pipe as soon as possible will make KGS's pipeline system safer, and that the surcharge is a small price to pay for this safety.

CURB has asked the Commission to deny this new KGS surcharge. Neither Staff nor KGS believe that the cast-iron pipe on KGS's system is in imminent danger of failure. In fact, KGS monitors its cast-iron pipe closely and will immediately replace any suspect pipe segment. No surcharge is necessary.

KCC Staff argues the surcharge will commit KGS to replacement of the cast-iron pipes over the allotted eight-year time period. This ignores the fact that the Commission can simply order KGS to replace all of its cast-iron pipe within eight years if the Commission believes that is the appropriate time-frame for replacement. No surcharge is necessary.

KCC Staff argues that, with the surcharge, KGS will replace the cast-iron pipe sooner than it otherwise would. However, KGS already had a plan to replace cast-iron pipes, and was replacing them at a pace that would have replaced them all within the next ten years. This proposal only advances the pace of replacement by two years. In CURB's view, allowing KGS a new line-item surcharge in exchange for only a two-year gain is not a reasonable trade.

In fact, KGS would nearly be done replacing the cast-iron pipe on its system if KGS had not made a management decision to *slow down* its cast-iron replacement program in 2002. According to KCC Staff, in 2002, "for some unknown reason, the replacement rate slowed and added an additional seven years to the replacement trend at the time." If slowing down the pace of replacement has made the KGS system less safe for Kansas customers, CURB argues that KGS should not be rewarded with a new surcharge for its poor management decisions.

KCC Staff also, for the first time, recommends allowing KGS to use forecasted expenditures to set the surcharge. KGS would start collecting money from customers based on an expected budget before it actually spends the money on pipe replacements.

When another utility wanted to use the same methodology to set energy-efficiency surcharges, the KCC Staff firmly rejected the use of forecasts to set the level of surcharges. The Staff offers no reasonable explanation for why it now no longer believes that forecasted surcharges are unacceptable.

Furthermore, as mentioned earlier, KGS already has a legislatively-created surcharge on customer bills for recovering the costs of infrastructure replacement—the Gas Safety and Reliability Surcharge (K.S.A. 66-2202 *et seq*). The GSRS allows the company to recover its annual costs of safety-related repairs and replacements—such as replacing aging cast-iron pipes. Thus, KGS could use the GSRS surcharge to recover the *exact same costs* of cast-iron replacements that it proposes to recover with this new surcharge.

Under the GSRS statute, KGS can use the surcharge to add as much as 40 cents/month per year to customer bills, for up to six years before it must file a rate case and start over (I.e., in the sixth year, the surcharge could be as high as $2.40 per month).

And it's not as if the cap on the GSRS would prevent KGS from fully recovering its costs. According to the KCC Staff, the annual costs of the cast-iron replacement program would comprise no more than 30% of the allowable GSRS charge each year. The remaining 70% of the allowable GSRS surcharge can still be applied to the costs of other infrastructure replacements.

Utilities are required by Kansas law to provide "safe and reliable service." It seems clear that if the Commission wants KGS to accelerate its replacement of cast-iron pipe, the Commission need only order it done.

Lastly, the legislature in its wisdom has already provided natural gas utilities an appropriate surcharge mechanism for recovery of the costs of infrastructure replacements that are required to protect the public safety. KGS is entitled to use it. There is simply no need for another line-item surcharge for safety-related costs. We believe it's going to be very difficult to explain to customers why they have to pay two different surcharges for safety-related costs.

The Commission has scheduled a hearing on the matter later in August.

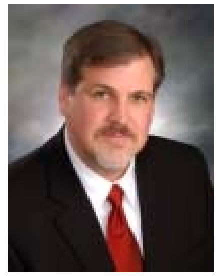
KCC Docket 12-KGSG-721-TAR

SPEAK OUT ON KGS RATE INCREASE REQUEST!

WICHITA: 6 pm, Thursday, August 16, Wichita Public Library Auditorium, 223 S. Main.

OVERLAND PARK: 6 pm, Wednesday, August 22, Overland Park City Hall Council Chambers, 8500 Santa Fe Drive.

TOPEKA: 6 pm, Monday, August 27, KCC First Floor Hearing Room, 1500 SW Arrowhead Road.



CORNER

It's hot here in the Corner. Of course, it's hot everywhere else in Kansas this year, too. Thankfully, the Corner is not located at the Norton Dam, where it was 118 degrees on June 26, 2012. I can't remember a summer so long and so dreadfully hot.

I started digging around for some weather statistics this morning. There is a statistic called a "cooling degree day" (CDD). A CDD is a backhanded way of measuring how hot the average temperature is on any given day. You take the average of the high temp and the low temp for the day and subtract 65. So, yesterday, August 6, 2012, the official high temp in Topeka was 99 degrees. The official low was 57 degrees. So there were 12 CDDs ((99+55)/2=77 – 65= 12) Add the daily CDDs up and you get monthly CDDs.

Why subtract 65 degrees? I suppose because people don't run their air conditioners when it is below 65 degrees. It's sort of arbitrary, but if you are consistently arbitrary for a really long time, eventually you can make some interesting observations.

CDDs, with a base of 65, have been calculated for decades. With over 30 years of data, you can statistically calculate the "normal" CDDs for any summer month. You can then compare this "normal" with the actual current CDD's for any month to see if the weather has been hotter (more CDDs than normal) or colder (less CDDs than normal) than normal.

So, how hot has it been this year? Year to date (August 6) there have been 1524 CDDs versus the 926 normally expected. That's 598, about 65%, more CDDs than normal. From June 1 through August 6, there have been 1206 CDDs versus 800 normally expected, about 51% more than normal. What that says is that the weather got hot really early this year and has stayed very hot. Of course, you didn't need me to tell you that.

All those extra CDDs eventually show up as higher electric bills, since we are all using more energy to cool the air in our houses in this extreme weather.

Those of you who have read the Corner for a while know that I'm fairly conservation-minded. We're not extreme conservationists, just mindful of our usage. But for June, I got the highest electric bill I've ever had. I'm sure many of you did also.

Just for reference, in Topeka, a 1500 kWh July Westar bill is up about 40% compared to the same 1500

(Continued on next page)

Consumer Counsel's Corner

(Continued from p. 7)

kWh bill in 2008.

For Kansas City Power & Light, a 1500 Kwh July bill is up 60% over the same bill in July 2007. Those are substantial bill increases – before factoring in the additional usage due to the extremely hot weather. And it is going to be worse in the future. I can't speak to future weather, but I can assure you that electric rates are going to continue to increase.

I fear that many of our seniors on fixed incomes and lower-income families are going to be overtaken by their electric bills this year. Kansas should have a meaningful program to help with energy conservation and utility bill assistance for at-risk populations. Unfortunately, after years of debating and filing documents and even working with AARP to draft and submit a law, Kansas still doesn't have such a program.

My July Westar bill should be on my doorstep in the next few days. I'm frightened to open it.

—Dave Springe

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