



Before the Senate Committee on Utilities

February 21, 2019

Opposition Testimony
On Senate Bill 124

Submitted by Jeff McClanahan, Director, Utilities Division
On Behalf of
The Staff of the Kansas Corporation Commission

Chair Masterson, Vice Chair Petersen, Ranking Minority Member Francisco, 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 (Commission).

The Staff of the Commission (Staff) is opposed to SB Bill 124 (SB 124). Staff opposes SB 124 because it is contrary to existing Commission policy and it seeks to reverse a Commission decision that was made in a carefully vetted general investigation docket—Docket No. 16-GIME-403-GIE (16-403 Docket)—in which a large number of stakeholders, including solar advocates, participated and provided evidence. The Commission issued an order on rate design for distributed generation customers in the 16-403 Docket on September 21, 2017, which determined the following:

...[T]he Commission finds [Distributed Generation] DG customers should be uniquely identified within the ratemaking process because of their potentially significant different usage characteristics. The Commission finds the unique identification of DG customers within a class or sub-class is the key to properly recognizing the cost and quantifiable benefits of DG. Utilities may create a separate residential class or sub-class for DG customers with their own rate design, which appropriately recovers the fixed costs of providing service to residential private DG customers, or a utility may continue to serve residential private DG customers within an existing residential rate class if the utility determines there are too few DG customers to justify a separate residential private DG class or sub-class or determines other justification exists to retain those customers in the existing rate class. A separate rate class for DG customers is not meant to punish those customers, rather such a class would serve to provide clarity for both utilities and customers.¹

¹ Final Order, p. 8, Docket No. 16-GIME-403-GIE (September 21, 2017) (403 Order).

...[T]he Commission finds the current two-part residential rate design is problematic for utilities and residential private DG customers because DG customers use the electric grid as a backup system resulting in their consuming less energy than non-DG customers, which results in DG customers not paying the same proportion of fixed costs as non-DG customers. The Commission finds DG customers are thus being subsidized by non-DG customers.²

...[T]he Commission finds the following rate design options are appropriate for residential private DG customers, to allow utilities to better recover the costs of providing service to that class or sub-class of customers:

- a. A cost of service based three-part rate consisting of a customer charge, demand charge, and energy charge;
- b. A grid charge based upon either the DG output or nameplate rating; or
- c. A cost of service-based customer charge that is tiered based upon a customer's capacity requirements.

The Commission finds the above list is not meant to preclude a utility from proposing other appropriate rate designs within that individual utility's rate case proceeding, but rather recognizes that each utility might have different conditions and different needs. Thus, the Commission finds the S&A allows flexibility for a variety of alternatives.³

...[T]he Commission finds rates for private residential DG customers should be cost-based and any unquantifiable value of resource approach should not be considered when setting rates. This is because cost-based rates are a fundamental attribute of good rate design as they allow the Commission to clearly identify quantifiable costs, which ensures rates for all customers are equitable while encouraging efficient use of resources and minimization of unnecessary cross-subsidization between customers. This finding is consistent with the Commission's stated preference at the initiation of this investigation. The Commission finds a class cost of service study provides sufficient support for design of a residential private DG tariff and no further study is necessary for the purpose of this docket because the class cost of service study takes into consideration benefits in the form of avoided costs. However, this finding does not preclude any party from sponsoring any study it believes necessary to provide an evidentiary basis for its position in a general rate case. As in this docket, any study submitted should include only quantifiable market-based costs and benefits to the utility.⁴ [Internal cites omitted.] [Emphasis added.]

² 403 Order, pp. 8-9.

³ 403 Order, p. 9.

⁴ 403 Order, p. 10.

The evidence gathered in the 16-403 Docket clearly demonstrated that DG customers have different usage patterns that result in "...DG customers use[ing] the electric grid as a backup system resulting in their consuming less energy than non-DG customers, which results in DG customers not paying the same proportion of fixed costs as non-DG customers." As cited from the Commission's order, "...cost-based rates are a fundamental attribute of good rate design as they allow the Commission to clearly identify quantifiable costs, which ensures rates for all customers are equitable while encouraging efficient use of resources and minimization of unnecessary cross-subsidization between customers." Therefore, SB 124 would require inequitable rates because DG customers will be legislatively mandated to be subsidized by non-DG customers.

It is also important to note that DG advocates, as parties to a general rate case, are allowed under the Commission's order to sponsor studies providing evidence regarding DG rate design. This important provision of the Commission's order allows for future changes in DG rate design as facts and circumstances may change. However, SB 124 would mandate DG customers be treated the same as non-DG customers regardless of contrary factual evidence.

Staff notes that the Commission's order in the 16-403 Docket was consistent with our position in the docket. As with most public utility regulation issues, the totality of the detailed technical evidence the Commission relied on in making its decision is extensive and complex. In order to aid this committee in its deliberations, Staff is including the Commission's Final Order, Staff's Verified Initial Comments, and Staff's Verified Reply Comments filed in the 16-403 Docket. Staff's Verified Reply Comments provides a summary of all of the parties' positions.