



## KANSAS GAS SERVICE

A DIVISION OF ONEOK

Before the Senate Utilities Committee  
SB 414

Testimony of Brad Dixon, President  
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Chairman Emler and Members of the Committee,

I appreciate the opportunity to testify in support of Senate Bill 414, which is known as the Gas Safety and Reliability Act. Kansas Gas Service, which provides natural gas service to over 650,000 customers in the State of Kansas, supports this bill because it furthers the ability of Kansas Gas Service and other natural gas utilities operating in the state to achieve the named purpose of the bill: that is to provide safe and reliable gas service.

Pursuant to this bill, natural gas public utilities operating in the state of Kansas will be able to more effectively and efficiently comply with state and federal requirements for natural gas safety. The legislation will also enable natural gas public utilities to comply with the requests of federal, state and local jurisdictions that request the utilities to relocate their facilities which may be located in streets and highways to facilitate street and highway improvement projects which occur throughout the state.

Kansas Gas Service and the other natural gas utilities operating in the state spend significant sums on an annual basis to provide safe reliable service. We also spend significant sums to relocate our facilities in streets and highways to facilitate highway and street improvement projects. For the years, 2003, 2004 and 2005, Kansas Gas Service spent approximately \$24 million per year on these groups of expenditures. This would equate to an annual charge of less than \$5.00.

These expenditures are not revenue enhancing to Kansas Gas Service and the natural gas utilities. The expenditures do not relate to providing service to new load. The expenditures are made to fulfill mandates required by governmental units. We do not contest the need for these mandates. They are appropriate. These mandates enhance safety, and promote the public well being through enhanced infrastructure in our local communities. These expenditures however, as I said, do not generate additional revenue for the natural gas utilities operating in the state.

Under Senate Bill 414, natural gas public utilities will be able to make timely recovery of these expenditures. The bill will enable natural gas utilities to make filings before the Kansas Corporation Commission showing how much money has been expended and the amount to be recovered. This bill has been modeled upon legislation passed in the state of Missouri in 2003.

In addition to enhancing safety through more timely recovery of non-revenue enhancing safety expenditures, the legislation will assist in reducing regulatory expense and large rate increases. By allowing more timely recovery for safety related and infrastructure enhancement programs through the mechanism set forth in Senate Bill 414, there will be less frequent need for expensive contested rate case filings, the costs of which are passed on to customers. When such filings are made, the rate increases requested will also be less than they would otherwise be thereby reducing rate shock to customers at the time of their regular filings.

There are provisions to protect consumers against inappropriate expenditures. Utilities are limited in the number of filings they can make under this legislation. The filings will be subject to a review by the Kansas Corporation Commission. The legislation requires the utility to make a major rate case filing every five years. To the extent that the Commission determines in the major filing that any expenditures were inappropriate, they will be subject to disallowance and refund. The utilities are limited by the amount of revenues that they could request under this filing procedure to no more than 10% of their base revenues as determined in their last rate case. To the extent that there is any over collection of the surcharge, such over collection will be credited back to consumers on an annual basis.

You may question why do we need this legislation when you could simply file for a rate increase. It is our opinion that the traditional regulatory model does not efficiently fit the current financial environment for natural gas utilities in meeting their obligations to provide safe and reliable natural gas service. Kansas Gas Service and the other utilities operating in Kansas are continuously replacing aging infrastructure and relocating infrastructure to meet safety needs and infrastructure enhancements. These investments do not enhance revenues. The assets that they are replacing were initially installed at a significantly reduced cost compared to today and they were installed to meet a growing customer base. Today, we might replace a main line extension on a major thoroughfare that was initially installed more than 50 years ago. That line may have been installed at a cost of approximately \$1.00 per foot and today is replaced at a cost of approximately \$28.00 per foot. When the line was installed, it was there to meet the growing needs of a thriving community. Today, there is no additional load associated with that line, simply the same amount of consumption as was there before. We are past the days in the natural gas industry when an increasing customer load will offset the cost of infrastructure placements obviating the need for rate cases. We are past the time when a natural gas utility can make investments and make up for these investments through load growth or cost cutting. We are faced with a situation where we are in a constant need for additional capital to make necessary capital replacements.

To file for an annual increase to meet these increasing costs over which we have no control is inefficient and costly. Annual rate cases are time consuming and costly. This bill provides a more streamlined approach to provide for non-revenue generating investments. Customers will be protected under this bill against charges for imprudent investments. The customer will avoid the significant regulatory cost of annual rate filings which would be necessary to timely recover our investments to provide service to our customer.

Thank you for the opportunity to address you today and I will be available for questions.