

Senate Utilities Committee
Regarding SB 414 – The Gas Safety and Reliability Act
Testimony of Atmos Energy
Presented by Ron Gaches
February 2, 2006

Thank you Chairman Emler for this opportunity to comment in support of Senate Bill 414, the Gas Safety and Reliability Act. I am Ron Gaches appearing on behalf of Atmos Energy.

Passage of SB 414 will encourage natural gas companies to increase the investment levels necessary to maximize the safety and reliability of their systems. In some cases these investments are mandated by federal or state agencies and in other instances there is some level of discretion associated with the scheduling and timing of those investments.

Under current Kansas law and regulatory practice, investments made to replace gas system infrastructure may not be recovered until the investment is in the ground, the investment is deemed “used and required to be used” prudent in a regulatory rate case before the Kansas Corporation Commission. The current system produces a significant regulatory lag time between when the dollars are spent for infrastructure replacement and when the company begins to recover these expenditures in the rates.

Because the current system allows recovery of such expenses only following approval in a rate case, there is often a multi-year delay in beginning the recovery of such expenditures. Rate cases are slow and expensive. The only alternative available under our current regulatory system is to file a rate case each year, an unnecessarily expensive proposition for the utility and ultimately our ratepayers.

SB 414 will allow a gas utility to apply a surcharge to customers’ bills and start to recover costs expended to replace infrastructure in a timely manner. This will reduce the costs associated with filing rate cases and reduce the regulatory lag associated with recovery of such funds, thereby making available additional funds for investment in the integrity of our system.

- 1 The industry proposal contains several safeguards:
- 2 Capital dollars must be expended and the new pipe in the ground before any investment can be recovered.

- 3 The surcharge is capped at 10 percent of their base revenues.
- 4 The KCC would review all expenditures before they are allowed to be recovered in customer rates, and the Commission is not bound until costs are reviewed as part of a reconciliation or general rate proceeding.
- 5 Surcharges are subject to refund after annual reconciliations conducted by the KCC.
- 6 Eligible capital projects must be non-revenue producing and the costs must not be already be part of the utility's base rates.
- 7 A utility can apply for a GSRS adjustment no more than twice per 12-month period.
- 8 Full rate cases will be required at least every five years with the KCC and any overcharges would be subject to refund and true-up.

The environment in which utilities make investment decisions has changed over time, while the manner in which costs for infrastructure investments has not changed for many years. This proposal has been adopted in several states with great success. It will produce significant benefits in terms of assurance of safety and reliability of our systems and we encourage your support.

Atmos Energy is a regional natural gas company serving approximately 3.2 million customers in 12 states. Our Kansas service territory provides natural gas service to approximately 125,000 customers through 111 communities in 33 counties of Kansas. Our Kansas regional office is located in Olathe and our national headquarters is in Dallas, Texas.