



**Testimony on HB 2512: Natural Gas Utility Interim Rates
Before the House Energy and Utilities Committee
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On behalf of Atmos Energy
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Chairman Holmes and members of the committee:

Atmos Energy serves 128,000 customers in 106 communities in Kansas, spread out over 32 Kansas counties. We have customers in large communities such as Kansas City, Olathe, and Overland Park, but we also have customers in Danville, Hazelton, and Wilsey. The economic climate within the state of Kansas is very important to us. We feel that HB 2512 is good for our customers and also good for the state of Kansas, and we encourage this committee to favorably support it as well.

Before a natural gas utility makes the decision to file for a rate increase it first reviews its records to determine whether there have been substantive changes in expenses since its last filing, and whether or not it is receiving its allowed rate of return. This involves reviewing its records for a 12 month period, typically either the most recent 12 months of its fiscal year or the calendar year. This process isn't something that happens by simply pressing a button, because utility rates are based on "normal weather" and any deviation in actual temperatures from "normal weather" must be "normalized," or adjusted to reflect what would have happened IF the weather had been normal. Additionally, any other extraordinary events need to be adjusted. These reviews and adjustments may take up to an additional three to five months, so before the utility can demonstrate conclusively it is revenue deficient, as much as a year and a half may have passed.

Once the utility's revenue deficiency has been determined, and all the "experts" have prepared their testimony to support this deficiency, the utility then files its request for a rate increase with the Kansas Corporation Commission (KCC). The typical procedure is for the KCC to suspend or delay implementation of the proposed rates for up to 8 months while its staff verifies, investigates, and scrutinizes the proposed rate structure, and ultimately comes up with its own recommendation to the Commissioners as to what the allowed increase should be. This means that by the time new rates are approved by the KCC, the capital investment, expenses and revenues used to set those rates are two years old and already out of date.

If HB 2512 were to become law, KCC and its staff would still perform its investigative "due diligence" before arriving at a just and reasonable rate decision, but the natural gas utility would be allowed to increase its rates beginning 30 days after the rate filing rather

than having to wait for the final settlement of the case. This new “interim rates” process would reduce the “regulatory lag” (the time in between the beginning of the test year and when new rates are set by the KCC) by about half, thus making the regulatory process more efficient. Of course, any interim rate increase put into effect would be subject to refund with interest to our customers, and would be reconciled when the final decision is reached.

Making regulation more efficient benefits our customers. Our Kansas customers would benefit when outside investors and bond rating companies look more favorably upon a company doing business in a state with a more efficient regulatory process, thereby making it easier for the utility to obtain investment capital at a more reasonable cost. Additionally, a more favorable viewing by a rating agency could save the company money, which translates to saving the customers money by reducing its cost of capital. These savings would be passed along directly to our Kansas customers in the form of reduced capital expenses.

The goal of regulation is to make sure customers pay for the reasonable costs incurred by the utility to provide them reliable utility service. Over the years, the KCC, with its implementation of regulatory changes such as the PGA (recovery of only the actual cost of natural gas), WNA (recovery of costs based upon normal weather); GSRS (recovery of safety related capital costs), and Ad valorem Tax surcharge (recovery of only the actual costs of property taxes), has made regulation more efficient to allow customers to pay only reasonable costs—no more and no less. The interim rate process included in HB 2512 is another step making KCC regulation more efficient.

Atmos Energy currently has customers in Iowa and Virginia where interim rates are allowed. We believe that passage of interim rates legislation will improve the investment climate in Kansas and, for this reason, encourage this committee to support HB 2512.

I am available for questions.