

## **TESTIMONY TO HOUSE ENERGY & UTILITIES COMMITTEE**

### **HOUSE BILL 2661**

**MEL CHESBRO, UTILITY SUPERINTENDENT  
CITY OF ST. JOHN, KANSAS**

**FEBRUARY 13, 2012**

Chairman Holmes and Members of the House Energy and Utilities Committee:

Good Morning. My name is Mel Chesbro and I am the Utility Superintendent for the City of St. John, Kansas. St. John is a small community of 1,295 located in midwest Kansas west of Hutchinson and directly south of Great Bend. The City owns and operates a municipal electrical system along with a water utility and a sanitary sewer utility. The City has provided electrical service to the community for over a hundred years and has also provided services to the rural customers who are in our defined service territory but outside the corporate limits of the city.

Currently, St John only bills the rural customers for the electrical service and no other utility charges. The City's electrical rate is very simple and has been composed of only three components: a customer charge, an energy charge, and an energy charge adjustment, or ECA, that acts as a direct pass-thru for fluctuations in our wholesale supply cost. While the rate structure is not complex it is designed to cover our cost of electric utility operation. The City's electric rate is the same whether the customer is inside the city limits or not. Basically, we determine the cost of running our municipal electric utility and then divide it by the total kWhs sold, adjusted for any losses and city use and that usage determines the rate we charge for our service. All of the City's fixed expenses are wrapped up in the energy charge. Like most other municipalities, the city does transfer a nominal amount from the electric fund to the general fund to offset the electric utility's use of city resources and assets to provide electric service. That transfer allows the city to reflect the cost of doing business to the electric utility – very much like a franchise fee paid by an investor-owned utility. These funds do allow the city to help offset a number of general fund expenses like police, fire and other city services and reduce the community's reliance on property taxes.

Several months ago, a customer located just outside the city limits but within our service territory, informed the City they were going to install a wind turbine on their property and wanted the City to do two things: 1) "net" all the kWhs they generate against what they purchase from the city, and 2) buy back all the energy they generate but can't use at whatever time of day they produce the energy, regardless of whether the City can use or even take the energy. It was explained to the customer that if the City were to directly credit the customer for the energy his system generated, there was no way under our current rate structure that the City could recapture the City's overhead for load following, line charges, depreciation, personnel expenses and general administrative overhead that are all currently bundled in the "per kWh" charge. And,

while the energy the wind turbine generates might displace our variable purchased energy cost, it doesn't replace the fixed costs mentioned above.

In the interest of promoting renewable energy and helping the City remain progressive and technology friendly, we agreed to restructure our electric rates for all customers who want to install self-generation on our system and create a rate that will allow consumers to obtain the savings that the City would realize by this customer displacing some of our energy requirements. We separated our flat energy charge rate into three parts. We established a demand, energy and ECA rate for these customers. The demand portion of the rate was designed to capture our fixed cost that we have regardless of whether the generator generates electricity or not. The energy and ECA portion of the rate was set to more closely reflect our variable cost and thus allow all energy to be "netted out" so they could get full value from their generator without other customers subsidizing this particular type of customer. Our City Council adopted a net metering policy that addresses this process. Furthermore, we addressed the customer's desire to sell excess energy back to the City that is not needed or usable by allowing them to carry-over, or "bank" the excess energy from month to month to be used during the periods that the wind turbine wasn't producing enough energy to cover the customer's requirements.

The City approved the customer's project to install the wind generation project and implemented a new interconnection agreement that addresses safety and operational concerns. After all this was done on the customer's behalf and to accommodate the installation of the wind turbine, the customer then voiced a concern that as a rural customer outside the city limits he should not have to pay any of the community's cost to provide other community services reflected in the fixed cost portion of his rate. Essentially, he wanted us to further "dissect" our cost structure and pinpoint to the penny what cost a person inside the city limits should incur verses those located outside the city limits but still within the "community." This issue was raised because some of the utility funds are transferred to the City's general fund and the City uses its general fund to support services normally provided to the residents of the City. Since he lived outside the city limits, the county would be the primary governmental entity to provide fire and police coverage, even though the City has a mutual aid agreement with the County for backup services and would respond in an emergency situation, but we would not be the primary responder to a call for police or fire.

The effect of this bill would require all cities to look at each of their customers and arrive at a separate bill detailing what services the customer would receive. This would be an administrative nightmare to treat each customer individually deciding if each customer would receive what respective service and trying to determine how much of a monthly bill to charge for each particular service. There are customers within the city limits that do not necessarily use all the services we provide but yet everyone pays for them as part of the community. An extreme example would be someone claiming they don't go outside their home in the evening and therefore don't use the streetlights which are covered in the overall rate structure, so therefore those customers would like a reduced rate.

Although a rural customer is outside the city limits but still within the community, they may not receive direct police or fire protection but they send their children to schools in the City, their families may enjoy the swimming pool in the summer. The "outside the city limits" customers

enjoy the City's parks and recreations centers. As a courtesy and in the case of a large fire the county and City will both send fire trucks to a large fire in the City or the county. We do keep one fire truck in St John to cover when a fire might occur in the county, but we do send our other truck and firefighters to respond outside the City. The police in St John generally patrol only in town; however, the Sheriff's office only has one deputy on duty most of the time so the City does provide backup to the Sheriff's office when an officer needs backup in the County near the City.

Approving House Bill 2661, would make it extremely difficult, if not impossible for a city to make a transfer from a utility fund to the city's general fund to provide reimbursement for city services and assets used for the electric utility and support city services. This is a system that has been in place for many, many years. We feel that St John has gone the extra mile to accommodate the one customer who had an interest in installing a wind turbine by unbundling our rate, implementing a net-metering policy that included an energy banking provision, modified our metering practice for residential customers to accommodate the new rate, and developed an interconnection policy to help facilitate the application process. We believe that we developed a program that was fair to the entire community regardless if they reside inside or outside the city limits.

House Bill 2661 would significantly change the way we do business and mandates a rate structure that our community does not support. We respectfully request that you view the immediate and long term implications this kind of legislation would have on all cities in the State that provide water, gas, or electric service.

The City of St. John strongly opposes HB 2661.

Thank you for your time and consideration.