

Before the Senate Committee on Utilities

March 15, 2017

Neutral Testimony
On Senate Bill 209

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

Chair Olson, Vice Chair Petersen, Ranking Minority Member Hawk, 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 Commission has established Electric, Natural Gas, and Water Billing Standards via Commission Order based on its statutory authority. These standards mandate, among other things, the information required to be provided on customer bills. The billing standards have also been updated several times over the years.

SB 209 requires electric utility bill charges to be “unbundled” into numerous components including separate costs for generation, transmission, and distribution. SB 209 also requires rules and regulations be adopted prior to January 1, 2018, and, after July 1, 2018, any bill provided to consumers by a retail electric supplier include the required information provided in subsection (a) of the bill. Staff notes that “unbundled” rates are typically associated with state legislation requiring the transition to retail choice of electric generation and that this bill appears to presuppose retail choice as well.

The Staff of the Kansas Corporation Commission (Staff) has a neutral position on SB 209. However, we would like to take this opportunity to offer you our concerns about the time lines required for Commission action as well as our analysis and thoughts regarding the bill overall.

First, SB 209 requires any bill provided by a retail electric supplier to include the enumerated items in the bill. The definition of retail electric supplier, found in K.S.A. 66-1,170, includes municipalities and cooperatives. The Commission only has rate authority over a limited few municipalities and cooperatives. Therefore, it is likely the Commission will not have the authority to adopt the rules and regulations this bill requires relative to municipalities and cooperatives that are not under the Commission’s jurisdictional rate authority.

Second, Staff and the Commission cannot meet the January 1, 2018 deadline to adopt rules and regulations. The “unbundling” of rates is a complicated matter that includes establishing common definitions and rules regarding how various components of costs will be calculated. Examples of the complicated issues that must be determined are noted below:

Section 1(a)(11) requires *a charge per kilowatt hour for the electricity provided based upon the average market price or costs to purchase electricity during the billing period*. Absent clarification from the legislature, a definition must be established for what average market price means. The locational marginal price (LMP) varies across the region so an average could be developed based on weighted kWhs. However, in the SPP integrated market (IM), all generation is already purchased on a daily basis so an average market price based on the price paid in the IM could be developed instead.

Section 1(a)(12) requires *a charge per kilowatt hour for the generation of the electricity provided that covers the physical infrastructure needed to generate electricity*. This requirement can be interpreted to mean that the fixed cost of generation should be included in the rate calculation. If the fixed costs are to be included, then an allocation process must be developed to spread the fixed costs across customer rate classes.

Section 1(a)(13) requires *a charge per kilowatt hour for the cost to transmit the electricity provided from generation sources, including any physical infrastructure necessary to transmit the electricity*. Absent clarification from the legislature, this requirement could be interpreted to include distribution system costs. If distribution system costs are included, a determination will have to be made as to whether average distribution costs for a customer class or the average distribution costs for a geographic location will be used.

Section 1(a)(18) requires *a demand charge based on the rate of electricity used at a specific point in time during the billing period*. Absent clarification from the legislature, a determination must be made regarding the use of coincidental or non-coincidental demand. Moreover, without demand meters or smart meters, the required demand charge cannot be calculated. This raises a question as to whether the legislature intends to require that utilities use demand meters on all commercial and industrial customers no matter how small.

The examples noted above are just a few of the complicated issues that will need to be addressed in a rulemaking process. In order to address these issues, Staff will need to provide electric utilities the opportunity to provide input. In addition, the adoption of rules and regulations is a defined process that will take time as well. Staff estimates that it will need one year to complete the development of the rules and regulations through the stakeholder process and that the formal adoption of the rules and regulations will require an additional nine to twelve months.

Therefore, the Commission cannot possibly complete a stakeholder process and meet a January 1, 2018 deadline to adopt rules and regulations.

Finally, SB 209 will create significant costs for any electric utility required to unbundle its electric rates. These costs will result from (1) the need to develop a class cost of service to identify and quantify the different sources of costs that are required to be unbundled, (2) the need to modify an existing electric utility billing system, and (3) the need for new billing system software if an existing billing system cannot be modified cost effectively.

Thank you for the opportunity to appear before your committee and offer our perspective on the proposed bill.