



Testimony in Support of Senate Bill 414

Remarks of Richard C. Loomis

Aquila, Inc.

Vice President, Kansas and Colorado Gas

Good morning Mr. Chairman and Members of the Senate Utilities Committee.

Thank you for the opportunity to present testimony this morning. My name is Chuck Loomis, Vice President of Kansas and Colorado Gas Operations for Aquila, Inc. I am based in Lawrence, Kansas which serves as the headquarters for Aquila's Kansas Gas Operations.

Aquila's natural gas operations in Kansas serve approximately 105,000 customers in over 40 communities across the state, including Lawrence, parts of Wichita, Dodge City, Garden City, Liberal and Goodland.

Aquila stands in support of Senate Bill 414. It is fair to say that replacing and improving infrastructure is a challenge for many. State highways, city streets, sewer systems, water systems all serve as examples of infrastructure that must be replaced and improved over time. Typically, gas utility franchises allow gas lines to be installed in public right of way. When a city or the state undertakes an infrastructure improvement project, the gas utility may be required to move its gas lines in the public right of way. Senate Bill 414 allows gas utilities to recover the cost of these relocation projects in a more timely manner. Aquila's investment in

relocation of gas mains has averaged approximately \$400,000 annually in the past three years.

Aging gas utility infrastructure is a challenge for gas utilities as well. Original installation of natural gas mains and service lines occurred many years ago, and due to age, corrosion, and other factors have led to deterioration over time. To ensure a safe, reliable gas distribution system, Aquila invests \$2 - \$3 million annually for gas main, service line and other facility replacements. Senate Bill 414 helps to address a challenge faced by gas utilities relating to recovering the cost of investing in safety related pipeline replacement projects in a more timely manner than occurs in the historical regulatory process.

As a utility invests capital in pipeline relocation and replacement projects, there is a lag in cost recovery from the time the investment is made until such investment is included in the utility's rate base, typically through a rate case filing. This lag is often referred to as regulatory lag. Generally, these types of investments are not controversial issues, but are a regular part of maintaining integrity throughout the gas systems. This bill allows recovery of utility investment in these non-revenue generating projects through a gas system replacement surcharge, while maintaining the necessary and appropriate checks and balances in the regulatory system to ensure utility investments are prudent.

Aquila also recognizes another potential benefit from passage of this bill. During 2005, nearly 100 rural customers in Southwest Kansas were disconnected from natural gas service due to potentially unsafe levels of hydrogen sulfide in the gas supply. Most of the customers were converted to propane. Under this bill, Aquila

may be able to extend service to customers to allow continued provision of safe, reliable natural gas service.

Aquila believes that implementation of a Gas System Replacement Surcharge as envisioned in this bill will result in a more efficient and effective regulatory process. We remain committed to discussing and resolving concerns that the Kansas Corporation Commission or other parties may have. I appreciate the opportunity to present remarks to you this morning and am happy to stand for questions at the appropriate time. Thank you.