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MEMORANDUM

To: House Committee on Energy, Utilities and Telecommunications
From: Nick Myers, Office of Revisor of Statutes
Date: March 14, 2018
Subject: Senate Bill 279 as amended by Senate Committee.

Senate Bill 279 amends K.S.A. 66-2202, 66-2203, and 66-2204 of the gas safety reliability policy act relating to the gas system reliability surcharge (GSRS). The bill amends definitions used in the act, what qualifies as an eligible project for GSRS cost recovery, and GSRS caps and charges.

The GSRS is a cost recovery mechanism for natural gas public utilities that allows for the recovery of eligible infrastructure system projects. Current law provides that only projects relating to the replacement or maintenance of infrastructure to comply with state or federal safety requirements and infrastructure relocations due to public works projects can be recovered through a GSRS. A GSRS is recovered through a monthly customer surcharge and is not based on volumetric consumption.

The Kansas Corporation Commission oversees the GSRS application process. A GSRS rate proceeding is a separate proceeding from a general rate case. No GSRS can be approved by the KCC or collected by a utility unless the utility has had a general rate proceeding in the last 60 months. The KCC is authorized to extend the 60-month deadline for an additional 12 months. With each general rate proceeding, a natural gas utility is required to file new rate schedules to reset the GSRS to zero. A natural gas utility may change its GSRS rate no more than once every 12 months.

Statutory caps impose limits to allowable GSRS recovery and charges. The KCC may not approve a GSRS that would produce annual GSRS revenues that exceed 10% of the natural gas public utility's base revenue level approved by the KCC in the most recent rate proceeding of the utility. Additionally, the monthly GSRS charge cannot increase by more than \$.40 per residential customer with each GSRS filing.

SB 279 would increase such caps. The bill would increase the GSRS cap on the allowable annual GSRS revenues from 10% to 20% of the utility's base revenue level. Also, the bill would provide that the monthly GSRS charge could not increase by more than \$.80 per residential customer in a GSRS filing as opposed to \$.40.

SB 279 would amend certain definitions that are used throughout the act. The bill would amend the definition of “appropriate pretax revenues,” “eligible infrastructure system replacement,” and “natural gas utility plant projects.” Also, references to “replacements” would be changed to “investments” throughout the bill.

The definition of “natural gas utility plant projects,” which define the projects that are eligible to be included in a GSRS, would be amended as follows:

“Natural gas utility plant projects” ~~may~~ consist ~~only~~ of the following:

(1) Mains, *meters*, valves, service lines, regulator stations, vaults and other pipeline system components installed to *replace, upgrade or modernize obsolete facilities, including but not limited to, installation* to comply with state or federal safety requirements ~~as replacements for replacing~~ existing facilities;

(2) main relining projects, service line insertion projects, joint encapsulation projects and other similar projects extending the useful life or enhancing the integrity of pipeline system components *including, but not limited to, projects* undertaken to comply with state or federal safety requirements; ~~and~~

(3) facility relocations required due to construction or improvement of a highway, road, street, public way or other public work by or on behalf of the United States, this state, a political subdivision of this state or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the natural gas public utility;

(4) system security costs including allocated corporate costs incurred by a natural gas public utility; and

(5) investments made in accordance with the utility’s safety and risk management programs.

SB 279 would add two definitions to define terms used in the above-mentioned definitional change, including:

“Obsolete facility” means a facility: (1) Comprised of materials that are no longer produced or supported by the manufacturer; (2) that shows signs of physical deterioration; or (3) does not meet current safety codes or industry standards. “Obsolete facility” includes the cost-effective replacement of other facilities that are not considered obsolete when the replacement of such is done in conjunction with the replacement of an obsolete facility.

“System security” shall mean capital expenditures to protect a utility’s capital assets, including both physical assets and cyber assets, such as networks, computers, servers, operating systems, storage, programs and data, from attack, damage or unauthorized use and access.