



Written Testimony Submitted to the

Joint Committee on Energy and Environmental Policy

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Chairman Holmes and Members of the Committee:

Kansas Municipal Utilities (KMU) was asked to provide the Committee with information regarding the rates and tariffs for customers living outside the corporate limits of a city with a municipally owned and operated electric utility.

Municipal utilities provide electricity to those customers in its defined service territory as authorized and determined by the Kansas Corporation Commission (KCC). In many cases, the service area for municipal systems will include the corporate limits of the city and the three-mile area surrounding the city. However, there are a number of systems that do provide service beyond that area depending on the defined service territories.

KMU understands that there may be some concern about how a customer outside the corporate limits of a city might be charged for service. Rates or tariffs are established by the local governing body or public utility board or commission. Many municipal systems charge the same rates both inside and outside the corporate limits of the city. There are also systems that do have a differential rate between those customers inside the city and those outside.

These differential rates have typically been established through cost of service studies that reflect the cost of providing electric service to a particular class of customer – in this case, those outside the city. For those cities with a rate differential, they have found that it is often more expensive to serve a less dense customer base than a higher density customer base found within a city. For example, typical residential developments can be served with a single transformer that might serve four residential services rather than a single transformer for single customer in a more isolated rural area. Rural areas can also require increased infrastructure through miles of electric distribution lines to serve a very limited number of service customers.

In addition, it is also important to note that the majority of municipal electric utilities are members of either Kansas Power Pool (KPP) or Kansas Municipal Energy Agency (KMEA) or both. Membership in the joint action agencies provides many benefits to municipal electric customers including access to diverse and affordable power supplies. Municipal electric customers have the added assurance of knowing the governing bodies of their respective communities as well as the Kansas Corporation Commission has oversight over the operation of both joint action agencies.

Municipal electric utilities have the authority to make transfers from an enterprise fund to other funds. Most municipal electric utilities do make some type of transfers to the city's general fund, and many have written policies for making those transfers. These transfers have often been declining in some cities because the financial margins for these utilities have been declining over time. Utility fund transfers have allowed communities to offset declining revenues from other sources including state transfers to local units. The transfers have allowed communities to sustain critical local services and programs.

As with much of rural Kansas, KMU's public power members currently face tremendous challenges, financial and otherwise. Earlier this year, KMU analyzed the population figures of those municipal electric utilities that operate local power plants. Of the fifty-six cities with reciprocating internal combustion engines (RICE), all but five have declining populations. Given these declining populations, a very difficult economic environment, loss of revenues from other sources, and a largely aging and low-income citizenry, KMU members often need to use all available resources to keep their communities viable into the coming years ahead.

Some municipal systems or cities have these transfers set up similar to a franchise fee that might be charged to an investor-owned utility in communities not served by a municipal utility. In these cases, the transfer is based on a percentage of electric sales or revenues (i.e., 2-5%). Others communities have set a specific dollar value to be transferred on an annual basis through the community's budget process. These transfers assist the community with providing necessary public services to the community while attempting to keep local property and sales taxes as low as possible. Those electric customers outside the corporate limits may pay an extremely low percentage of their electric bill for a transfer to support other services, but those same customers also benefit from their proximity to those communities providing utility services.

In 2007, legislation was enacted that would remove municipal electric systems regulated by the KCC from that regulation, but only under a defined set of circumstances. Most notably, the rates, terms and conditions of service for those customers previously under KCC jurisdiction must mirror those of customers inside corporate limits.

These municipal systems and the elected officials that govern their operations work to provide reliable electric service at the most reasonable cost possible while still providing a benefit to the community and the customers that own the system.