

Notice of Proposed Energy-Efficiency Programs and Cost Recovery

In 2008, the Kansas Corporation Commission (KCC) began encouraging utility companies to implement energy-efficiency programs. In response, Kansas Gas Service filed an application with the KCC on December 18, 2009, to offer a variety of energy-efficiency programs for residential and commercial sales customers, and to recover the costs associated with the operation of these programs. The application also proposes the establishment of a ratemaking mechanism called "decoupling." Decoupling breaks the link between the amount of gas sold to customers and the level of revenues the company collects. Under decoupling, Kansas Gas Service would receive a specified level of revenue, regardless of how much natural gas consumers use. A copy of Kansas Gas Service's application and supporting testimony is available on the KCC's Web site at <http://kcc.ks.gov/docket/cal.cgi?docket=10-KGSG-421-TAR>.

Public Hearings

The KCC has scheduled two public hearings regarding Kansas Gas Service's proposal:

- **Monday, May 17, 2010**
6:30 p.m., Century Performing Arts and Convention Center, Room 101 AB
225 West Douglas Ave., Wichita, KS
- **Tuesday, May 18, 2010**
6:30 p.m., Kansas Corporation Commission
1st Floor Hearing Room
1500 S.W. Arrowhead Rd., Topeka, KS

Each public hearing will take place in two parts. First, during an information session, Kansas Gas Service's representatives, KCC staff and staff of the Citizens' Utility Ratepayer Board (CURB) will discuss the proposed energy-efficiency programs and answer questions from the public. During the second segment, members of the public are invited to make formal statements about the proposal to members of the Commission, which are transcribed and made part of the record.

Any person requiring special accommodations under the Americans with Disabilities Act needs to give notice to the KCC at least 10 days before the scheduled hearing by calling 785-271-3166.

About Kansas Gas Service's Application

Efficiency Kansas Loan Program:

Kansas Gas Service seeks to participate in Efficiency Kansas, a new energy-efficiency program administered by the State of Kansas. Efficiency Kansas provides loans to customers to make energy-efficiency improvements to their homes or small businesses. By partnering with the State, Kansas Gas Service would serve as the loan administrator and customers would repay the loan on their monthly utility bill, as computed with their energy savings. More information about Efficiency Kansas is available at www.encykansas.com.

Kansas Gas Service estimates that it will incur administrative costs of \$359,000 per year for five years, totaling \$1.71 million, by offering the Efficiency Kansas program. In order to recover the associated costs, Kansas Gas Service customers who choose to participate in the program would incur the following costs:

- \$2.00 monthly administrative charge paid to the State of Kansas;
- \$4.00 monthly administrative fee paid to Kansas Gas Service for customer account maintenance and reporting requirements;
- \$120.00 one-time assessment fee paid to Kansas Gas Service, to process customer agreements, establish program participation and to comply with various utility obligations as required by the program, is folded into the loan and repaid on a monthly basis.

Costs not recovered from the above fees would be recovered from all customers through the energy conservation surcharge listed below.

Other Energy-Efficiency Programs:

Kansas Gas Service also seeks to offer other energy-efficiency programs to its residential and commercial sales customers:

- **Heating System Check-up Program** – Provides rebates for seasonal inspection of home heating systems;

- **Water Heater Replacement Program** – Provides rebates for the installation of a natural gas energy-efficient tank or tankless water heater;
- **Space Heating Replacement Program** – Provides rebates for the installation of high-efficiency natural gas home heating equipment;
- **Natural Gas Direct Use Existing Homes Pilot Program** – Provides rebates to residential customers for the replacement of electric appliances with more efficient natural gas appliances;
- **ENERGY STAR® New Homes Program** – Provides rebates applied against the costs incurred to achieve the ENERGY STAR® New Homes certification requirement of pre-drywall and post-construction inspections;
- **Commercial Customer Program** – Provides for payments to commercial sales customers for customer-specific energy-efficiency investments that meet minimum cost benefit tests.

Kansas Gas Service estimates it will cost \$2.1 million per year for five years, totaling \$10.5 million, to offer these programs. In order to recover these costs, an energy conservation surcharge of approximately 32 cents per month would appear on all residential and commercial sales customers' bills.

Decoupling:

As it stands now, Kansas Gas Service's revenues are not guaranteed because they are linked to sales – the more natural gas the utility sells, the greater its revenue and potentially its profit. By offering energy-efficiency programs, like those listed above, Kansas Gas Service will be encouraging and providing incentives to its customers to reduce their natural gas usage. Because Kansas Gas Service may experience a reduction in sales and therefore revenue, Kansas Gas Service has requested that the KCC "decouple" sales from revenue.

Decoupling ensures that Kansas Gas Service will receive its allowed revenues, established by the KCC, regardless of the level of sales.

- If sales decrease and Kansas Gas Service does not achieve its allowed revenues, customers will pay extra through a surcharge on their bill.
- If sales increase and Kansas Gas Service exceeds its allowed revenues, customers will receive a refund through the surcharge on their bill.

Had decoupling been in place last year, Kansas Gas Service estimates the residential surcharge would have been 38 cents per month for a total of \$2.64 million.

A more in-depth discussion of decoupling is available on the KCC's Web site at <http://kcc.ks.gov>.

Public Comments

The KCC encourages comments from the public regarding Kansas Gas Service's proposed energy-efficiency programs, the recovery of related costs, and the decoupling mechanism. Comments will be accepted through May 28, 2010, should reference Docket No.

10-KGSG-421-TAR, and may be e-mailed to public.affairs@kcc.ks.gov, made by phone at 1-800-662-0027, or mailed to:

Kansas Corporation Commission

Office of Public Affairs and Consumer Protection
1500 SW Arrowhead Road
Topeka, KS 66604

Technical Hearing

A technical hearing will begin on June 2, 2010, in the KCC's first floor hearing room at 1500 SW Arrowhead Road in Topeka, Kansas. The Commission must issue an order on or before August 16, 2010, and, if approved, the application will become effective on approval.

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