

Testimony to House Energy & Utilities Committee

House Bill 2661

Tim Maier, General Manager

McPherson Board of Public Utilities

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Chairman Holmes and Members of the Committee:

My name is Tim Maier, General Manager for the Board of Public Utilities (BPU) in McPherson, Kansas. Jeff Houston, the City Attorney for McPherson, is also present this morning to answer any city specific questions the committee might have. McPherson BPU was created by the City of McPherson and is charged with the responsibility for providing water and electric utilities. All utility revenue comes from electric and water sales.

McPherson BPU supplies service to approximately 8,500 electric customers, of which roughly 1,600 are located outside the city limits. BPU also provides water to approximately 5,700 water customers, including four rural water districts and less than 50 retail water customers located outside the city limits.

In 2011, total electric operating revenue was \$47 million with the utility transferring \$1.522 million to the City of McPherson. The transfers to the City represent approximately fifteen percent (15%) of the city's general fund. With a significant industrial load and customer base outside of city limits, yet within BPU's defined service territory, I estimate that 67% of this transfer would be eliminated by enactment of HB 2661. McPherson does not have a franchise fee and considers these transfers to represent a reasonable return on its investment in generation and transmission equipment, which the City began over one hundred years ago and continues to fund today. If prohibited by the passage of this bill, a roughly 10 mil increase in property taxes would be necessary to off-set the loss of revenue.

McPherson prides itself on its industrial manufacturing base which provides strong employment opportunities to McPherson County and all surrounding counties (the current county unemployment rate as of December 2011 is 3.9%). In fact, this legislative session, the Kansas Senate passed Resolution 1811 specifically commending McPherson for some of its industrial development activities.

The BPU and the City have been active in industrial development for many years. The BPU Industrial Park, which was developed by the utility, is located in the county and is home to four major industrial businesses. McPherson Industrial Development Corporation (MIDC), funded in large part from the City, McPherson County, and the BPU, has been in existence for over 50 years with its primary function being to aid existing and potential industries. The utility has also invested significant sums in generation, substations and transmission lines located outside the city limits to specifically support these customers. These efforts have resulted in McPherson County having over 4,000 manufacturing jobs, with the majority being just outside the City of McPherson. Many of these jobs are also filled by people living outside the corporate limits of McPherson.

In 2011, BPU had its first rate increase since 1983. One major reason rates have remained constant is the growth of the industrial electric load due to the city's investments. This growth also resulted in significant economies of scale. Large industrial growth, due to industrial development, not only allows cheaper rates, but also supports a higher level of service, which is required by industry, benefitting all BPU customers.

When rates were modified in 2011, the utility equalized rates between city and non-city customers. If HB 2661 was enacted, city customers would incur the full risk and cost of the City investments and benefits and, in effect, subsidize non-city customers.

In addition, regardless of whether the BPU customer is located inside or outside of the city limits, all BPU customers receive benefits from City services. For example, the McPherson City Fire Department (MFD) is the only full time fire department in the county. In addition, to provide fire protection to all of the utility's generation equipment within the city limits, MFD also provides, through agreement, fire protection for all county fire districts. The City provides the only Haz-Mat and Arson teams in the county, conducts county-wide training free of cost to the rural districts and helps equip and maintain those same firefighters. These agreements have been negotiated between the services and are mutually beneficial.

Industry outside of the city limits also relies upon the City for emergency services. For example, the NCRA refinery, outside of the city, maintains its own fire department, but has entered into an Agreement with the City to provide the necessary fire protection to the refinery.

The city police department, the largest law enforcement agency in the county, provides county-wide criminal investigation services, along with training and IT/reporting services.

We believe that it is appropriate to allow local entities to continue to negotiate these private/public partnerships to provide the best quality services at the best overall terms.

Should HB 2661 pass, the utility will either be required to sell electricity to customers outside the City at below cost, which is not good business, or evaluate the value in retaining these customers.

In summary, BPU customers currently have and will continue to receive benefit from being served from a municipally-owned utility. The City has been successful in retaining and recruiting industry, which has supplied not only McPherson but the entire area with valuable jobs and reasonable electric rates.

The City of McPherson and its Board of Public Utilities strongly oppose HB2661.

Thank you for the opportunity to provide these comments this morning and I would be happy to stand for questions at the appropriate time.