



**Midwest  
Energy, Inc.**

1330 Canterbury Road  
P.O. Box 898  
Hays, Kansas 67601-0898  
(785) 625-3437  
1-800-222-3121  
Fax (785) 625-1494  
[www.mwenergy.com](http://www.mwenergy.com)

**Testimony Submitted by Patrick Parke  
To the Senate Utilities Committee  
In Support of HB 2489**

March 6, 2012

Mr. Chairman and members of the Committee, thank you for the opportunity to appear before you today. I am Patrick Parke, Vice President Customer Service of Midwest Energy, Inc., a customer-owned gas and electric utility serving 91,000 customers in 41 counties of central and western Kansas. These remarks are focused on our 42,000 natural gas customers. Midwest Energy is the only regulated utility affected by HB 2489 and supports its passage. We appreciate the unanimous support in the Kansas House for this bill.

Our cooperative is unusual among Kansas utilities in being the only combination gas and electric service provider other than a few small municipal systems. By providing both services we achieve economies of scale and efficiencies in service that provide greater value and lower costs to our customer-owners. We operate as one company without internal divisions between the gas and electric components of our business except for separate cost allocations. Our customer-elected Board of Directors includes electric only, gas only and

combination gas and electric customers. Midwest Energy is also unusual in that we are not a member of an electric generation and transmission cooperative such as Sunflower or KEPCo. We independently generate and purchase power supplies. The buck stops with our management and board on all aspects of gas and electric service.

For more than 30 years all but the largest Kansas electric cooperatives have had the opportunity to remove themselves from KCC regulation and establish full member control. Since 2009, all Kansas electric cooperatives, including Midwest Energy have had this opportunity. But, given the integrated nature of our business, the opportunity means little. Minimal efficiency would be gained with a half-regulated business, or regulated service to the gas meter and member-controlled service to the electric meter. HB 2489 is essentially the electric cooperative deregulation statute applied to gas cooperatives.

Midwest Energy deeply respects the expertise and role of the Kansas Corporation Commission and the Consumer Utilities Ratepayers Board. We support this statute on its own merits and not as an attempt to evade oversight by a prejudicial authority. Within a cooperative there are no conflicting interests between ratepayers and investors. All of the equity within a cooperative is provided by customers. All profits, which we call “margins”, are plowed back into the business and ultimately returned to customers through a capital rotation cycle.

This blunts the impact of actions the KCC might take with respect to reducing rates. Denying a cooperative the recovery of certain costs through rates simply has the effect of charging the same costs against past margins provided by customers or deferring them for recovery from customers in the future.

The protection provided by regulation also comes at a cost in terms of time and money. Without considering rate cases, KCC and CURB assessments and related legal costs paid by Midwest Energy's customer-owners run about \$300,000 a year. And even though we can conduct rate cases much less expensively and hopefully less often than the bigger utilities, it still costs us at least \$150,000 to \$200,000 out-of-pocket to process a rate application. There are other costs when, as was necessary a few years ago, we needed legislative changes before the KCC could approve the launch of our award-winning How\$mart<sup>®</sup> energy efficiency program. We have not calculated the internal costs of regulation to Midwest Energy other than to estimate we have about two full-time equivalent employees supporting such efforts.

This leads to an inescapable corollary. Regulation adds time and decreases our responsiveness to customer needs as it balances competing interests. To cite a rather extreme example, in 2006 the KCC opened a docket to reexamine utility security deposit practices. It wasn't until late 2011, after more than five years of proposals and counter proposals, that revised guidelines were issued. In the area of

energy efficiency, where Midwest Energy has a strong emphasis and a great track record, multiple rulemakings have been undertaken since 2007, the last of which remains unresolved.

The Governor established the Office of the Repealer because he believes state laws and regulations shouldn't hinder opportunities for Kansans and Kansas businesses. The regulation of customer owned gas utilities is a case in point. Clearly customers won't always feel they are getting a fair shake from their cooperative, no matter how open and transparent the rate-setting process is. That is why Midwest Energy endorses the regulatory backstop provisions in the current electric and proposed gas deregulation legislation. There can be no tyranny of the majority against a minority that feels its rates are too high. Under HB 2489 and its electric cooperative counterpart, it will be easy for a relatively small number of customers to trigger a full KCC review.

That's the whole story. There is no beneficiary from HB 2489 other than our customers. There is no potential harm to those customers that cannot be easily remedied. Please pass HB 2489 and allow our customers an opportunity to determine their own future.

Thank you.