

**Testimony of Kansans for Lower Electric Rates (KLER) and
Kansas Industrial Consumers Group (KIC)
In Opposition of House Bill 2527
Before the House Energy, Utilities & Telecom Committee
February 6, 2024**

KIC & KLER stand strongly opposed to House Bill 2527. Never before have we seen such an overreaching attempt to change foundational Kansas utility law and decimate the Kansas Corporation Commission's (KCC) ratemaking discretion that is necessary to determine just and reasonable rates for retail ratepayers in Kansas.

In 2018, the Legislature started discussing the issue of high electric rates in Kansas. In each legislative session since then, this Committee or the Senate counterpart has spent considerable time and focus considering ways Kansas electric rates, and specifically Evergy electric rates, can become more regionally competitive.

There have been many important discussions and actions by the Kansas Legislature that have brought reductions in the retail electric rates for about one million ratepayers of Evergy in Kansas, but two actions of the Legislature stand out as having a clear benefit to rates and ratepayers:

1. 2020 elimination of the state income tax on utilities
2. 2023 reforms of the Transmission Delivery Charge

Rates have only increased modestly in Kansas thanks to the above actions of the Kansas Legislature, Evergy's 5-year base rate moratorium, and a reduction in the operating costs resulting from the merger – but Evergy still has some of the highest rates in the region (Attachment 1).

Rates are projected to continue to increase as Evergy considers new generation investments, updating infrastructure and investments in new transmission. HB 2527 would make Evergy's projected spending significantly more costly for customers.

HB 2527 has four sections; all four sections will increase rates

Section 1 (new law) – Plant in service accounting (PISA). PISA allows Evergy to collect depreciation expense and a return for assets once they are used and useful,

versus the current practice of including new assets in rates during a rate case proceeding.

In traditional regulatory theory, cost savings and depreciation net out against missed revenue and earnings opportunities. This is how regulation in Kansas has existed for over 100 years. The proposed PISA is one-sided toward Evergy (and Liberty) and doesn't provide any benefit to customers.

This PISA issue was debated in the Missouri General Assembly for several sessions and was thereafter approved – but only with several retail ratepayer safeguards that moderate any rate increase impact on retail ratepayers. None of the Missouri safeguards are included in the Evergy proposed legislation.

An important question to consider: With PISA, how much new capital spending is unlocked or anticipated? As a reminder, rate increases are tied directly to capital spending.

Section 2 (new law) – Capital structures and setting a Return on Equity. This section is the most egregious part of this bill. It completely removes the KCC's long-standing authority to receive and review evidence on two of the most critical items in any Rate Case, and to thereafter issue a Rate Order in the best interests of all Kansans.

This is a very high-dollar component of the Evergy proposed legislation.

HB 2527 would require the KCC to change how it calculates retail rates for one million customers of Evergy in Kansas, and the result is \$47.5 million higher annual retail rates in favor of Evergy, for this section alone.

If the proposed Section 2 legislation had been in place last year, the Evergy Kansas Central (EKC) Rate Increase would have resulted in an additional annual Rate Increase of \$36 million. The KCC ordered a Rate Increase of \$74 million for EKC. HB 2527 would make that Rate Increase \$100 million per year.

If the proposed Evergy legislation had been in place last year, the Evergy Kansas Metro (EKM) Rate Decrease of \$33 million per year ordered by the KCC, would be reduced by \$11.5 million, to \$21.5 million per year – a \$11.5 million per year reduction in benefit to retail ratepayers of EKM.

HB 2527 would also require the KCC to exclude evidence on the appropriate level of Return on Equity (ROE) for the shareholders of Evergy.

HB 2527 would require the KCC to utilize an average ROE based on utilities across the country. This calculation would have required a 9.82% before-tax ROE for Evergy shareholders. This 9.82% ROE of HB 2527 is in contrast to the 9.40% ROE ordered by the KCC in calculating the ROE for electric transmission projects.

Section 3 (amending existing law) – Adjusting economic development discounts.

This section adjusts the economic development discounts approved by the Legislature in 2020. KIC supported the 2020 bill, noting that KIC was open to discussing cost recovery concerns raised by various stakeholders. KIC & KLER continue to believe that bringing large new users to Kansas helps lower rates for all customers over time.

The proposed changes create a new level of discounts for very large customers. The only positive part of this bill is the provision removing Evergy's ability to "track" and recover the initial costs of discounts before they are fully put into rates during a rate case. This overall section can be greatly improved by adding program cost caps and individual customer cost caps for discounts. KIC & KLER are open to discussing ways to advance Section 3 with appropriate customer protections.

An important question to consider: If Evergy has concerns and challenges serving new customers, what is the benefit of continuing to increase and provide discounts?

In general, for very large customers KIC & KLER believe the existing special contract structure is more beneficial for general ratepayers than using economic development discounts.

Section 4 (amending existing law) – Construction work in progress (CWIP)

surcharges. Section 4 changes the existing pre-determination statute to give Evergy the ability to start charging customers, through a surcharge, the day they start constructing a new gas generation facility. CWIP, which is prohibited in several states, raises several customer concerns and considerations. It effectively uses customers to finance large investments. Will there be a corresponding reduction in ROE for greatly reduced financial risk of Evergy?

What happens if a project doesn't come online after customers have paid millions of dollars for it?

What incentive does Evergy have to manage a budget and construction timeline when customers are already paying the bills? CWIP in this form is a bad idea for consumers.

Is HB 2527 necessary?

One of the chief reasons Evergy uses to promote this bill is the perception that the existing regulatory environment is harming investors and that the KCC is out of step. Earnings reported by Evergy Central and increasing dividends paid out by Evergy tell a different story about the financial health of Evergy (Attachment 2).

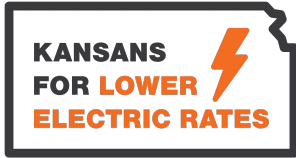
KIC & KLER, and Kansas as a whole, need Evergy to be successful. It's all about achieving the appropriate balance. HB 2527 is not a balanced approach to meeting the energy needs in Kansas, one that is fair and equitable to retail ratepayers.

KIC & KLER are ready to have discussions before next Session on this bill and other concepts with Evergy, the KCC and other stakeholders to seek to arrive at mutually beneficial policies. With the current language in HB 2527, we urge the committee to stay on the path of achieving regionally competitive electric rates and firmly reject this bill.

Contact:

Paul Snider, on behalf of KLER & KIC | (913) 439-9723 | paul@sniderpa.com

The Kansas Industrial Consumers Group (KIC) is a coalition of large-volume energy users in Kansas. The members collectively represent billions of dollars of investment in the State and employ thousands of Kansans. Kansans for Lower Electric Rates (KLER) is an advocacy project of KIC with members of all sizes. We believe high energy costs are negatively impacting residential consumers, schools, hospitals, and large and small businesses.



Regional Electric Rate Comparison

2022/2023 -- Sorted by Residential

Municipal Utilities	State	Residential (¢/kWh)	Commercial (¢/kWh)	Industrial (¢/kWh)
City of Russell	KS	8.91	8.17	5.99
McPherson BPU	KS	9.06	7.16	5.41
Omaha Public Power District	NE	11.96	9.19	7.36
Independence Power & Light	MO	15.18	14.18	11.22
Kansas City BPU	KS	16.44	13.26	9.32
Investor Owned Utilities (IOU)				
Ameren Missouri	MO	11.14	8.6	6.45
MidAmerican Energy	IA	11.36	8.07	6.3
Evergy Missouri West	MO	11.99	9.29	6.75
OG&E Electric Services	OK	12.14	9.45	6.23
Public Service Company of OK	OK	12.27	8.93	6.38
Evergy Missouri Metro	MO	12.93	10.56	7.13
Evergy Kansas Metro	KS	13.57	11.53	8.95
Southwestern Electric Power	AR	14.25	11.64	9.96
Evergy Kansas Central	KS	14.8	12.92	9.89

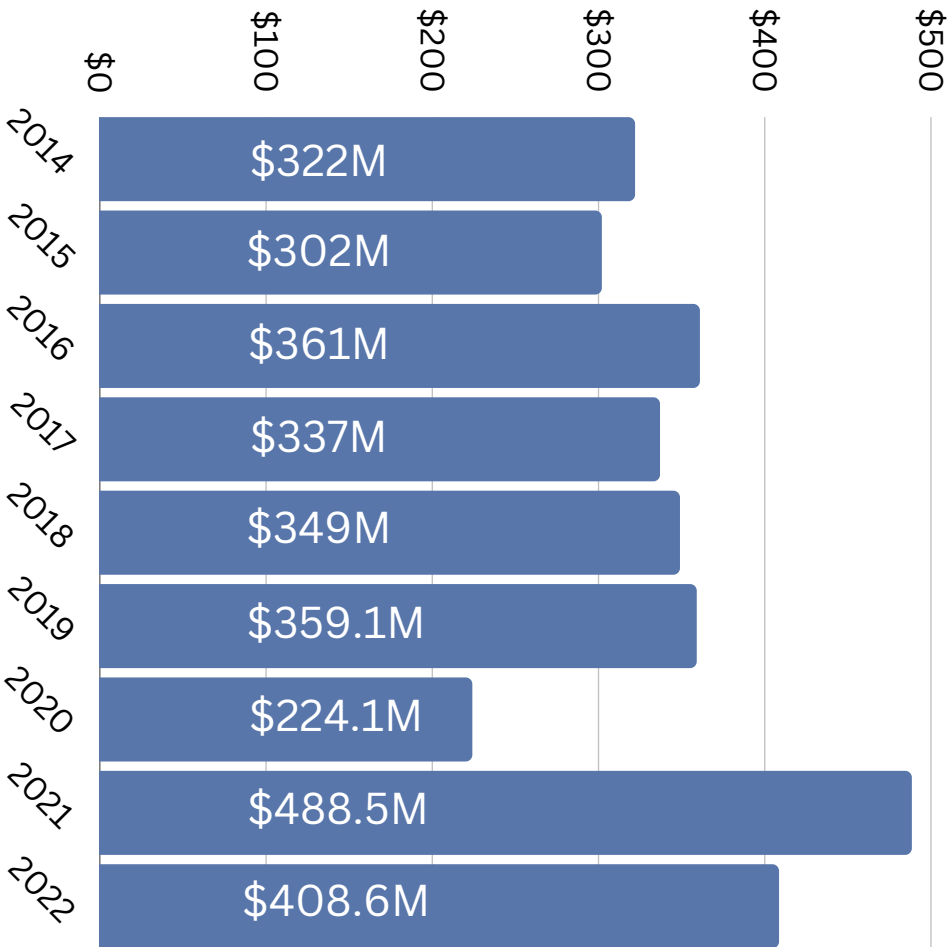
Notes: Updated Dec 2023 -- Does not include 2023 rate case outcomes

Municipal rates include charges for the PILOT and are calculated using current rates and the same billing determinants as IOU rates

*IOU rates are weighted averages of 4 months summer and 8 months of winter Edison Electric Institute rates and do not include any special contract rates. *Xcel CO no longer provides rate information to EEI.*

Evergy Central Annual Net Income

\$Millions\$



Evergy Dividends 2018-2023

