

Kansas Energy Problem

High electric rates rising higher

Senate Utilities Committee
March 25, 2021

Regionally high electric rates

For the last several years, Kansas has had the highest electric rates in the region.

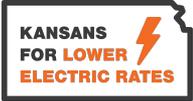
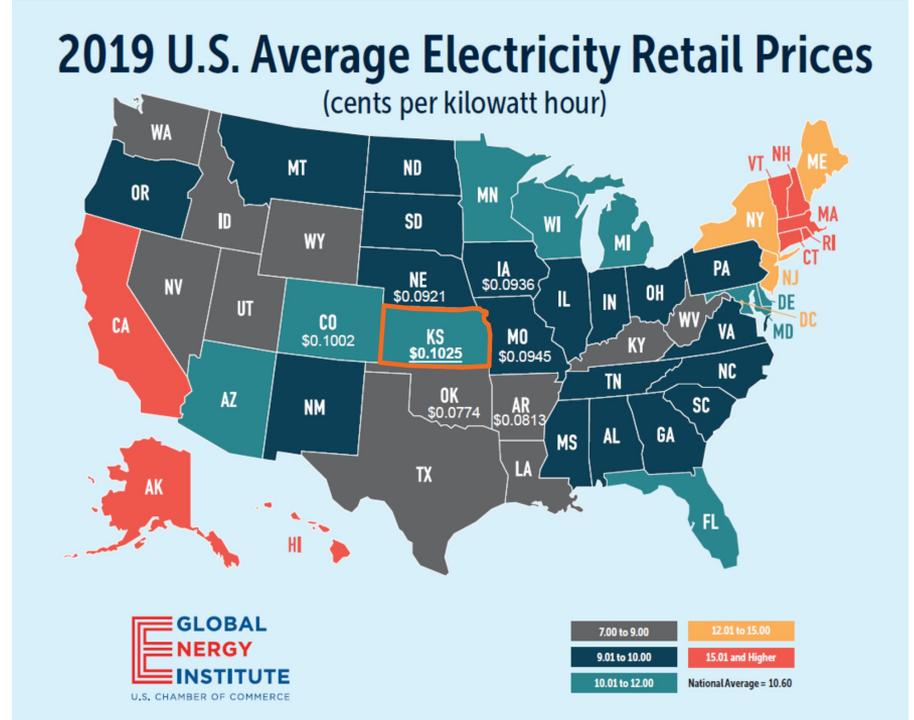
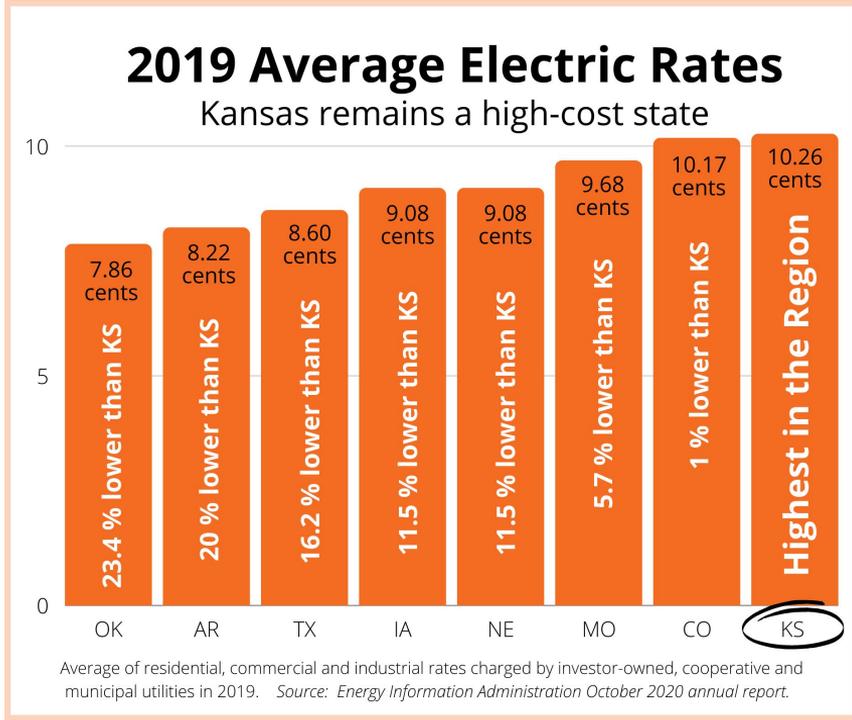
This is confirmed by data from:

- Federal Energy Information Agency
- London Economics (Phase 1 Rate Study consultant)
- AECOM (Phase 2 Rate Study consultant)
- Evergy internal analysis
- Additional outside sources (including KIC & KLER)

There is no dispute that Kansas has the highest rates in the region. Evergy sells about 75% of the total retail electric sales in the state, and is the wholesale supplier for much the remaining sales through KEPCo and Midwest Energy.

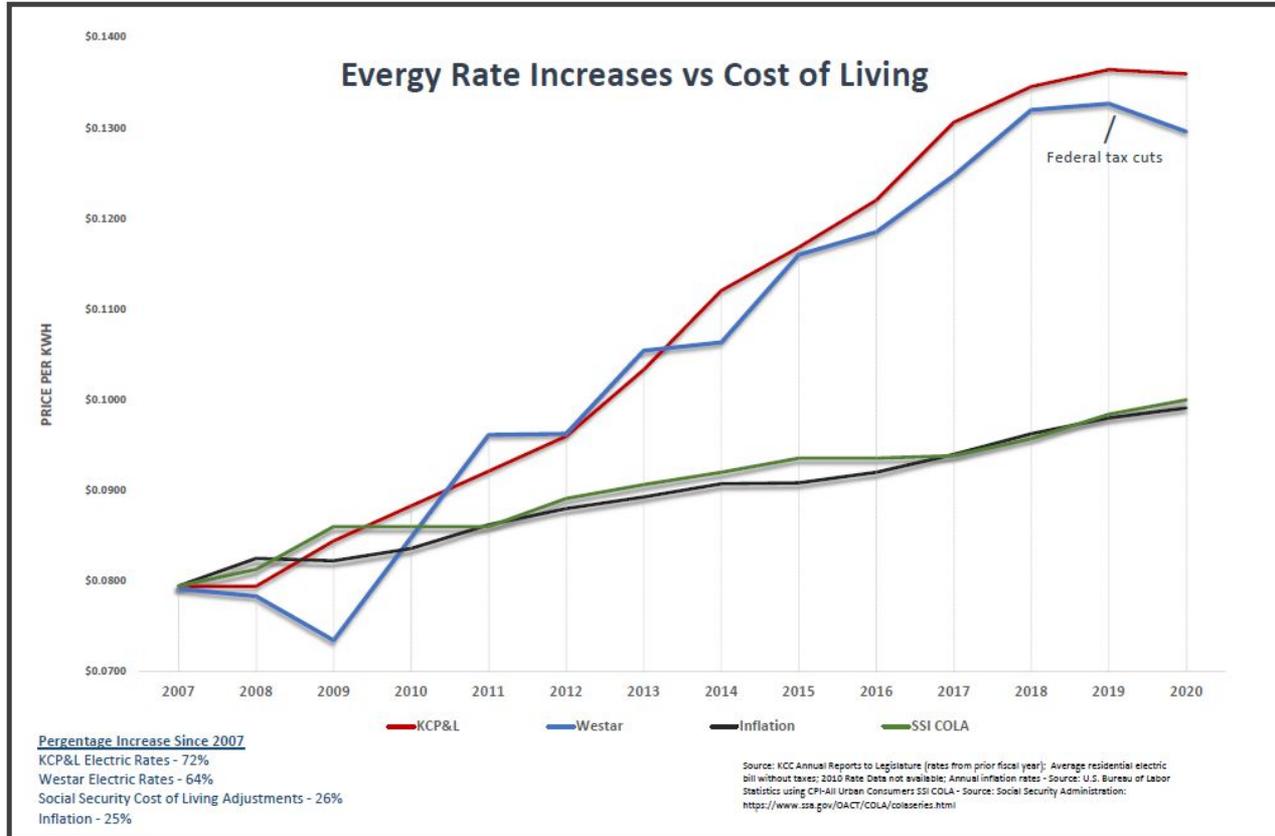


Rate Examples



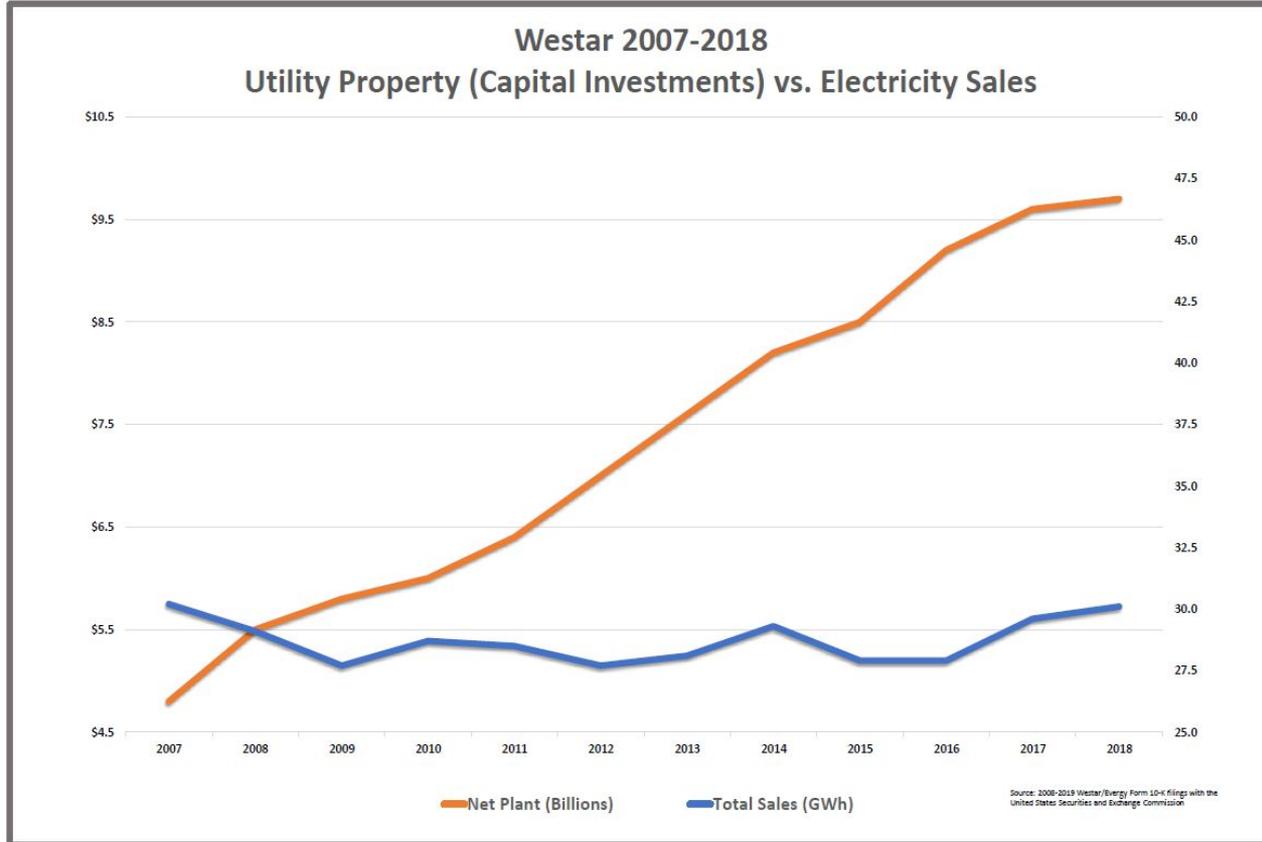


Rates increased far more than CPI





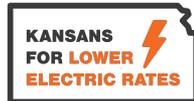
Sales are flat, but investments rapidly grow





Energy compared to the region

| State | Company | Major City | Total Customers | Average Rate -- Cents per kWh | Rate Compared to Wichita | Rate Compared to Overland Park |
|-------------------|------------------------------------|------------------|-----------------|-------------------------------|--------------------------|--------------------------------|
| Kansas | Evergy KS Central | Wichita | 716,196 | 10.09 | N/A | 7% Lower |
| Kansas | Evergy KS Metro | Overland Park | 262,344 | 10.85 | 7.5% Higher | N/A |
| Comparison Cities | | | | | | |
| Missouri | Ameren | St. Louis | 1,230,248 | 8.89 | 11.9% Lower | 18.1% Lower |
| Missouri | Liberty Utilities | Joplin | 155,425 | 11.46 | 13.6% Higher | 5.6% Higher |
| Missouri | Springfield City Utilities** | Springfield | 116,844 | 8.56 | 15.2% Lower | 21.1% Lower |
| Oklahoma | Oklahoma Gas & Electric | Oklahoma City | 786,529 | 7.16 | 29% Lower | 34% Lower |
| Oklahoma | Public Service Company of Oklahoma | Tulsa | 557,421 | 7.47 | 26% Lower | 31.2% Lower |
| Nebraska | Lincoln Electric** | Lincoln | 141,650 | 8.43 | 16.5% Lower | 22.3% Lower |
| Nebraska | Omaha Public Power* | Omaha | 384,501 | 8.9 | 11.8% Lower | 18% Lower |
| Colorado | Xcel Energy | Denver | 1,499,395 | 9.37 | 7.1% Lower | 13.6% Lower |
| Colorado | City of Colorado Springs** | Colorado Springs | 235,098 | 9.43 | 6.5% Lower | 13.1% Lower |
| Arkansas | Entergy | Little Rock | 713,072 | 8.53 | 15.5% Lower | 21.4% Lower |
| Iowa | MidAmerican Energy | Des Moines | 695,590 | 7.3 | 27.7% Lower | 32.7% Lower |





The Legislature is taking notice

2018 -- Senate Resolution 1612

- *“A concurrent resolution supporting and facilitating regionally competitive retail electric rates in the state of Kansas and urging the KCC to take all lawful action to promptly set rates for retail electric service in the state of Kansas at regionally competitive levels.”* Passed 30-9

2019 -- SB 69 -- Electric Rate Study

- *“To provide information that may assist future legislative and regulatory efforts to craft forward-looking electric policy that leads to regionally competitive electric rates and reliable electric service, the legislative coordinating council shall authorize a study of the retail rates of Kansas electric public utilities.”* Passed 38-1 and 117-7

2020 -- HB 2585 -- Income Tax Elimination and Economic Development Rates

- Passed 39-1 and 75-45



Rate Study (SB 69) -- Major Concerns Cited

- Current ratemaking methods favor utilities
 - *“the current IOU ratemaking practices reflect some degree of imbalance between utility incentives and public interest objectives (such as achieving regionally competitive rates or other public policy objectives)”*
- Underutilized assets are a drag on rates
 - *“while the KCC’s primary objective standards and vetting process for ensuring the prudence of utility investments are sound, they are limited in terms of protecting ratepayers from paying for investments that are underutilized. For instance, declining capacity factors of currently operating rate-based Kansas coal plants (two of which have capacity factors significantly below the regional average) suggest a need to periodically review their usefulness”*
- Surcharges need adjustment
 - *“there is potential for improvement in the processes for review of recovery of surcharges and riders”*



KCC has potential to do more

- The KCC has a good staff capable of working toward regionally competitive electric rates.
 - Senate Resolution and rate study legislation explicitly directed the KCC to address the issue.
- Two op-eds from KLER asked the KCC to help with a plan.
- Brightspot: Commissioner Duffy has made multiple comments expressing concern about high rates.
- The KCC has the responsibility and the authority to limit increases and work toward regionally competitive electric rates.



No real rate moratorium

The merger-related rate moratorium applies to base rates only, not to riders and surcharges. Roughly half of Evergy bills are comprised of surcharges, riders or other adjustments that continue to be adjusted through the moratorium.

Transmission Deliver Charges (TDC) Adjustments:

- April 1, 2018 - \$31,456,832 **Increase**
- April 1, 2019 - \$ 7,697,765 **Decrease**
- April 1, 2020 - \$ 3,478,797 **Increase**
- April 1, 2021 - \$ 38,091,942 **Increase**

- **Net TDC Annual Retail Rate Increase at April 1, 2021 - \$65,329,806**



Utilities make money by investing

- Investor-owned utilities like Evergy make money for shareholders by investing capital. Invested capital is tracked in a utility's "rate base" and utilities earn a return on their rate base.
- Utilities can't easily control sales, but they can increase their rate base to generate additional earnings for shareholders.

Accounting principals:

- Evergy's annual depreciation is \$880M, meaning without additional investment, rate base would go down \$880M each year.
- Going forward, Evergy can invest \$880M each year without requiring an increase in rates.
- Some states require longer depreciation schedules, moderating increases



CapEx increasing more than 50%

Evergy 5 Year Capital Expenditure Plans

- May 24, 2018 - Merger Order - Evergy 5 Year Capital Expenditure Plan - \$6.1 Billion
 - KCC Holds That Merged Company Will Reduce Capital Expenditures by \$1.0 Billion
- March 2, 2020 - Evergy 5 Year Capital Expenditure Plan - \$7.6 Billion + 26.6%
- August 5, 2020 - Evergy 5 Year Capital Expenditure Plan - \$8.9 Billion + 48.3%
- February 28, 2021 - Evergy 5 Year Capital Expenditure Plan - \$9.2 Billion + 53.3%
- *Total Evergy Capital Expenditure Plan Increase - + 53.3%. \$3.2 Billion*
- What's next?



STP will drive rates higher

- The Sustainability Transformation Plan (STP) is explicitly designed to increase shareholder returns.
 - Evergy: *“New Five-Year Strategic Plan Delivers Increased Value Creation for Evergy Shareholders”*
 - Evergy: *“Maximize long-term shareholder value”*
- Utilities make money by investing capital. The STP increases Evergy capex by over 50% from estimates in the merger agreement.
- Much of the investment is in transmission and delivery systems.
 - Evergy receives an enhanced return for transmission investments.



Largest increase in state history

- The STP is expected to increase rates 10-11% (per Wichita Eagle), and the KCC has not given an indication it will review the massive investment before the funds are spent, virtually ensuring a significant rate increase.
- A 10% increase equals about \$220M/year, every year, or \$2.2B in increases over 10 years.
- The largest increase in state history was \$134M.
- Evergy plans similar investments 2025 to 2030.



KS Energy Problem Conclusion & Request

- Kansas has the highest rates in the region
- Legislative efforts to reduce rates (HB 2585) have been eclipsed by TDC increases
- The 10-11% STP increase would be the largest in state history and will ensure KS remains the highest in the region

While this is a critical issue, there is no Legislative request at this time.

Request to KCC: Take formal action and open a proceeding to craft a forward-looking electric policy that achieves regionally competitive electric rates as soon as reasonably possible. Capital spending and operational expenses should be measured against this policy.

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