Kansas Industrial Consumers Group

KANSANS FOR LOWER ELECTRIC RATES

Testimony of Andrew French
On Behalf of Kansas Industrial Consumers Group and
Kansans for Lower Electric Rates
Rate Study Observations
Before the Senate Utilities Committee
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The Kansas Industrial Consumers Group (KIC) and Kansans for Lower Electric Rates (KLER) are concerned about high electric rates in Kansas. Last year KIC and KLER were the lead proponents of Senate Bill 69, which required the rate study performed by London Economics International (LEI).

KIC and KLER are very pleased to see such a comprehensive and thoughtful study by LEI. We believe the Legislature, the State and electric customers received great value in commissioning this study, which came at a very modest cost. More importantly, customers will receive a significant return on their investment, in the form of utility rate savings, if the reforms identified by LEI are pursued.

The study validates the facts and policy positions KIC has shared over the last two Kansas Legislative Sessions. Both this study and the KCC rate study completed around this time last year show Kansas, particularly Evergy, has much higher electric rates than surrounding states. In general, the higher rates can be attributed to large new investments in utility property (increased rate base) paired with flat or declining electricity sales.

One of the goals of the study was to provide deeper insights into causes of high rates and options the Legislature can pursue to help achieve regionally competitive rates. Of particular note, LEI highlighted three weaknesses of our current ratemaking system:

1: Kansas Ratemaking Favors Utility Profits over Competitive Rates
In perhaps an overarching statement, LEI found that there is "a degree of imbalance between utility profits and public interest objectives" in Kansas. (p. 89) LEI bases this statement on its analyses showing the rapid escalation of retail rates to levels well above the regional average at a time when utility shareholders are experiencing healthy gains.

2: Surcharges and Riders Contribute to Higher Rates and Are Subject to Less Scrutiny
In a more specific criticism, LEI also identifies the utilities' heavy reliance on surcharges and riders, without a comprehensive ratemaking process, as a weakness. Specifically, LEI notes, "Between 2009 and 2018, Westar Energy's total riders and surcharges have increased by an average of 15% per year, while the total overall rates experienced an average annual increase of just 5%." (p.74) LEI confirms, "The contribution of the combined riders and surcharges to the

total bill is sizable," and "there is potential room for improvement in the processes for review of recovery of surcharges and riders." (p.12)
In 2019, KIC requested the introduction of SB 24 to control the rapid escalation of the Transmission Delivery Charge (TDC). KIC and KLER believe that bill is very important in light of plans to continue investment in transmission to support additional wind.

3: Kansas Ratepayers Pay for Utility Investments that Are Not Fully Utilized
As a final criticism, LEI notes the KCC's ratemaking processes "are limited in terms of protecting ratepayers from paying for investments that are underutilized." (p.11) LEI's study finds "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." (p.11) Because such a process does not currently exist, "ratepayers in Kansas continue to pay for utility investments that are not fully utilized (mainly coal plants) due to increasing competition from low-cost resources, primarily, wind." (p.116)

Given the declining usefulness of this property, it is imperative for policymakers to question whether customers should continue to pay rates that include a full "return of" and "return on," the utilities' investments. If the property is no longer needed to serve customers, the costs associated with that property should be removed from rates. There are several assets currently in rates that Evergy has officially retired, yet customers are still paying.

Next Steps
The next phase of the SB 69 rate study will be presented on July 1. The second (and final) phase of the study focuses generally on more forward-looking energy issues, such as the role of electric vehicles, future investments in advance energy solutions (energy efficiency, storage, etc.), how rates impact economic development, and how Evergy rates impact the municipal and cooperative utilities.

The current LEI study provides several recommendations to achieve competitive rates, including:

- **Create an Energy Plan** -- We support an energy plan and the Governor's intent to revitalize the state energy office. A first step in the creation of an energy plan should be to develop goals. Rate affordability or competitiveness is a primary policy goal in most states' energy plans.

- **Implement an Integrated Resource Plan (IRP) process** with a competitive-procurement framework -- IRPs are helpful in evaluating a utility's resource needs and modeling customer rate impacts. We support this recommendation. Currently, Kansas utilities are not required to perform comprehensive integrated resource planning to determine the lowest cost manner of serving customers, though Evergy is currently working with the KCC to develop an IRP process. An IRP process should be transparent and open to stakeholders and intervenors. A robust IRP mandate may require legislative action.

- **Explore the development of performance-based ratemaking (PBR)** mechanisms aligning utility and customer interests -- This could be an effective tool but needs much more study, however the process should begin. The KCC may need additional legislative authority and direction to pursue this option.

- **Establish a framework allowing for securitization** of uneconomic assets -- As stated previously, there is a significant problem with underutilized and unutilized assets on the Evergy system. Securitization, when carefully crafted, is a useful tool to have. Legislative action will be needed to implement securitization.

- **Study costs and benefits of retail competition** in the electricity sector. -- KIC has not previously advocated for deregulation or restructuring of the utility industry. However, LEI's analysis suggests this may be a good option for Kansas. According to LEI, the main benefits of retail choice are lower prices, more diverse choices of products and services, and greater innovation in the electricity supply sector. (pp. 184-189) KIC and KLER support LEI's recommendation to convene a panel of stakeholders to further evaluate this option.

KIC and KLER appreciate the Legislature's assistance in passing SB 69 last year and reviewing the insights and recommendations of LEI. There is much work to be done to help Kansas achieve regionally competitive rates. We look forward to working with you, and our utilities, to address this problem.

Contact:
Andrew French, Vice President
Kansas Industrial Consumers Group
Kansans for Lower Electric Rates
(913) 661-9800
andrew@smizak-law.com