Kansas Industrial Consumers Group

KANSANS FOR LOWER ELECTRIC RATES

Testimony of Kansans for Lower Electric Rates and Kansas Industrial Consumers Group In Support of House Bill 2180 Before the House Energy & Utilities Committee February 11, 2021

House Bill 2180 dampens high electric rates by adjusting an incentive to invest in transmission. One of the primary factors driving utility investments, and costs to consumers, is continued expansion of the transmission network in Kansas. In the mid-2000s, the Kansas Legislature enacted a number of provisions that encouraged investment in transmission, including the now-dissolved Kansas Electric Transmission Authority.

One notable incentive is the Transmission Delivery Charge (TDC) statute, enacted in 2003 and found in K.S.A. 66-1237. The TDC allows utilities like Evergy to quickly and seamlessly recover transmission costs, including their own investments, through a surcharge on customer bills. These significant costs are further inflated by generous federal ratemaking treatments – all paid by Kansas retail customers with no state oversight due to the provisions of the TDC statute.

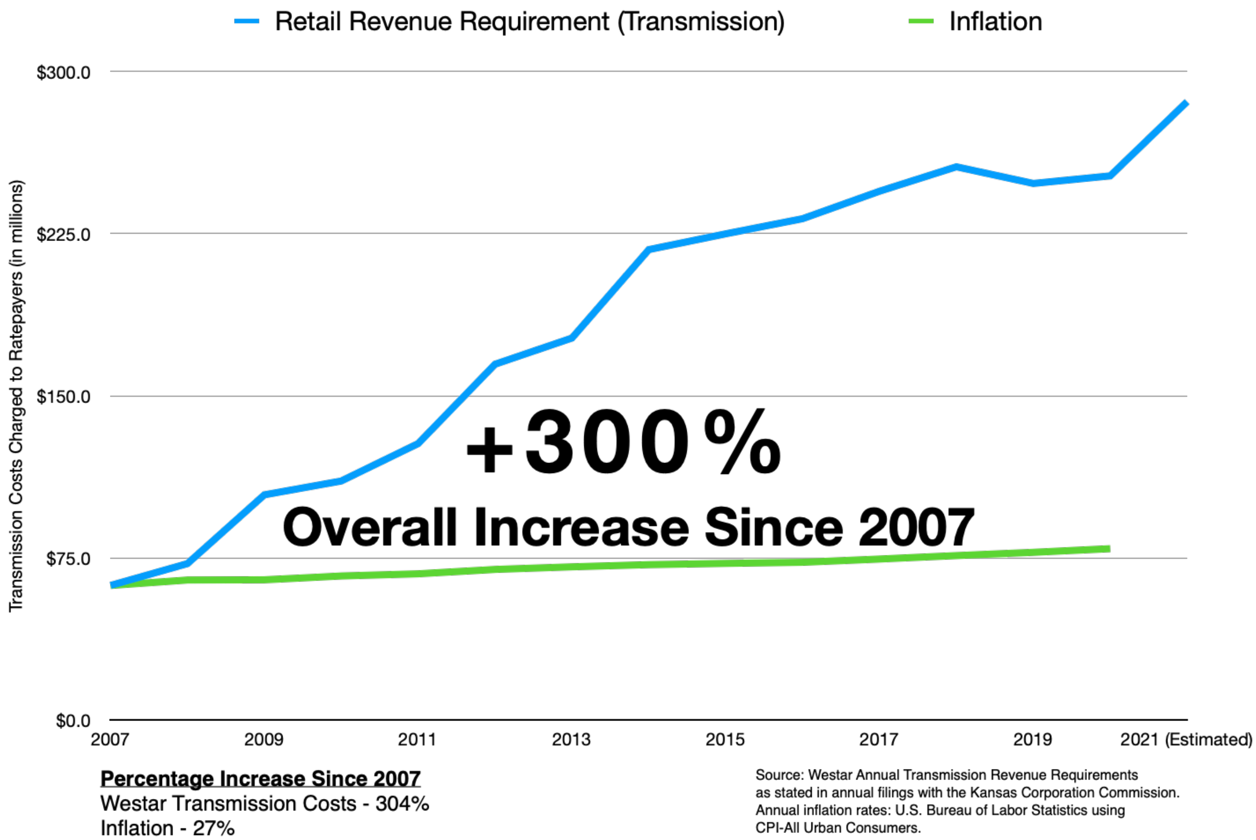
The Federal Energy Regulatory Commission (FERC) regulates interstate transmission and allows significantly higher returns than the Kansas Corporation Commission (KCC). For instance, Evergy is allowed a 10.3 percent return on equity from FERC, where the KCC provides a 9.3 percent return on equity. The FERC return includes a 50-basis point "incentive adder" because Evergy belongs to the Southwest Power Pool (SPP).

These unnecessarily generous returns, paired with quick and easy recovery of costs through a shareholder-friendly surcharge, have induced our utilities to aggressively invest in transmission projects, driving substantial rate increases for Kansas customers.

Escalation of the TDC has been very apparent on the Evergy Kansas Central (formally, Westar) system where transmission rates have increased over 300% since the charge was implemented. A typical residential customer using 901 kWh per month would have had a monthly TDC charge of approximately $3.67 in 2008. Today, according to the KCC, the TDC charge for that customer is $15.06 per month – making up over 12 percent of an average bill.

Naturally, the charge is much higher for large-volume customers and has increased by a similar proportion over the last decade. A typical high load factor customer with 50,000

KW demand would have had a monthly TDC charge of approximately $62,500 per month in 2008 and today that charge would be over $282,000 per month. The overall increase in transmission rates is shown in the chart below.



Evergy plans to spend close to $2 billion over the next few years on new transmission projects alone. This will cause even more rate increases through their TDC, which is not subject to any rate moratorium.

House Bill 2180 aims to moderate, but not eliminate, the financial incentives to invest in transmission projects. With this change, Evergy would no longer be permitted to annually adjust rates. Instead, the company would have to wait for a general rate case proceeding before increasing rates. The reason for this is simple. In April Evergy will increase its TDC rates, wiping out any savings achieved by HB 2585 last year.

On the flip side, House Bill 2180 ensures the collection of transmission costs cannot be negatively impacted in a rate case. Today, these costs are conclusively deemed prudent and House Bill 2180 does not eliminate this presumption.

The bill would allow any FERC or other special rate changes to be quickly processed, but Evergy would no longer receive annual, automatic changes.

We want to emphasize our utilities are not entitled to the TDC. The TDC statute is an <u>incentive</u> created by the legislature and one that has run its course. The recent electric rate study sponsored by the Legislature notes Kansas' high utilization of surcharges and said:

> *"In recent years, the Transmission Delivery Charge (TDC) has also been a key driver of increasing electric rates in Kansas, contributing to higher costs to consumers."*

As drafted, House Bill 2180 does not impact electric cooperatives, municipal utilities, or third-party transmission providers. It only applies to retail rate-regulated utilities that have implemented a TDC pursuant to K.S.A. 66-1237. Evergy's Kansas operations and Liberty Utilities – Empire District (formally, the Empire District Electric Company) are the only two utilities currently using the statutory TDC. To clarify this exemption, we propose adding subsection (c) to read as follows:

> (c) The provisions of this section shall not apply to any:
>
> (1) municipal electric utility; or
>
> (2) utility that is a cooperative as defined in K.S.A. 66–104d, and amendments thereto, or wholly owned by one or more such cooperatives.

As the Legislature looks at ways to make Kansas electric rates more competitive and affordable, House Bill 2180 is a reasonable and straightforward solution that can help achieve that goal.

We urge the committee to support House Bill 2180.

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The Kansas Industrial Consumers Group 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 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.