Testimony in Opposition to HB2180

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For the House Energy, Utilities and Telecommunications Committee

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Chairman Seiwert and members of the Committee:

Thank you for the opportunity to provide our views on this bill. First, let's discuss why the Transmission Delivery Charge (TDC) was implemented and what it is.

It is important to note that TDC legislation was adopted to address concerns in Kansas about the lack of new investment in transmission as well as the reliability of the transmission system. Those investments have benefited the state of Kansas by enabling the development of a major, new multi-billion-dollar industry in wind generation. More directly, customers throughout Kansas have benefited from not only better reliability, but the investments have made it possible for large businesses, universities and residential customers to benefit from Kansas wind.

The TDC charge encompasses the changes from the Transmission Formula Rate (TFR), which is the mechanism FERC (Federal Energy Regulatory Commission) uses to review and approve our investment prudence where rates are updated on an annual basis. The TDC is the Kansas mechanism we use to pass along on an annual basis, consistent with the FERC TFR process, savings or costs to retail customers. For transparency, it shows up separately on a customer's bill as a TDC charge. It is changed annually, but sometimes extraordinary events mean it is changed more frequently. For instance, the federal tax reductions associated with the Tax Cut and Jobs Act of 2017 were flowed back quickly because of the ability of the TDC to be updated and reflected in customer bills. For a typical residential customer, the TDC charge is about $14 per month on a typical monthly bill of $114.

This type of recovery mechanism is not unique to Kansas, although other states may use different acronyms. Arkansas, Illinois, Minnesota, South Dakota, North Dakota and Iowa have similar types of transmission adjustments that are made annually and outside of a rate case. Texas, Colorado and Oklahoma have adjustment mechanisms to recover identified RTO (Regional Transmission Organization) and FERC transmission costs as well.

As for this legislation, there are several reasons why this bill simply makes no sense for customers. This bill would prevent us from immediately passing on any savings/decreases from the charge until the next rate case. In fact, 5 of the last 6 TFR/TDC adjustments have resulted in DECREASED rates which were quickly reflected in customers' bills. At a time when Evergy is in a 5-year base rate case moratorium, customers would not reap the benefits of quickly passing those savings on.

This bill would also result in MORE rate cases to recover any TDC increases or pass along savings from decreases. The financial cost of these additional rate case proceedings will be passed on to Kansas customers. As such, the ultimate impact of this legislation may result in a cost increase to our customers and not a decrease. Additionally, although the TDC results in more frequent changes to customer bills, it facilitates more gradual changes in customer bills, which is another long-standing principle of utility ratemaking. Smoothing changes in customer bills through Kansas' currently approved TDC and fuel riders -- two of the largest components of utility costs -- is beneficial to Kansans by providing for more manageable bill changes versus significant step changes that can occur with less frequent but generally more impactful rate case proceedings.

It is also important to realize that the costs associated with enabling transmission activity in the State of Kansas unlock the ability for Kansas customers to take advantage of LOWER fuel costs, which are passed on to customers through the similar annually updated fuel rider. This legislation detaches the transmission from associated fuel cost changes on customer bills. Those transmission lines carry low cost wind and solar power to homes. Without them, customers would consume more higher-cost generation. This bill would create a disincentive for utilities to build any future transmission. The prospect of single-issue ratemaking contemplated by this legislation is also inconsistent with the principles of good ratemaking.

Transmission is really about reliability. Reliability is critical for manufacturers, and even a momentary blip can cost a company millions of dollars. Evergy is making great strides on reliability in both the rural areas we serve and specifically in Wichita. As we move forward, we need to keep an emphasis on transmission in order to help bring manufacturers to Kansas who want both reliability and access to renewable energy. In addition, the reliability and resilience of our system is important for rural customers at the end of the line who depend on us every day for their electricity needs.

The proponents bring this bill in hopes of reducing rates. The record should reflect that Evergy has joined with them when legislation reduces costs for customers, like we did last year when we collaborated to find a way to eliminate pass-through income taxes, which results in immediate changes in customer bills. That willingness to find solutions is a major reason why Kansas electric rates have declined the past three years. The evidence on this particular bill, however, suggests that it will not decrease rates. What it will do is stop timely recovery of prudent investments in Kansas infrastructure and delay passing on lower costs in a timely manner. It will invite more rates cases that our customers pay the costs of, and will make delivering lower cost energy much more difficult.

For those reasons, Committee, we respectfully oppose this bill.