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**Testimony Submitted by Earnie Lehman
To the House Energy and Environment Committee
In Support of HB 2623**

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Mr. Chairman and members of the Committee, thank you for the opportunity to appear before you today. I am Earnie Lehman, President and General Manager of Midwest Energy, Inc., a customer-owned gas and electric utility serving 50,000 electric and 42,000 gas customers in 41 counties of central and western Kansas. Midwest Energy is a transmission owner as well as a recipient of transmission service from the Southwest Power Pool (SPP), with interconnections to Westar, Sunflower Electric and NPPD (via ITC Great Plains). Midwest Energy supports HB 2623 because it is an available and necessary tool to reduce costs that would otherwise fall on Kansas electric customers and preserve the reliability of our service.

Planning and operation of our nation's electric system has been increasingly centralized over the last 50 years, ever since the great Northeast blackout of 1965. Also beginning in the 1960's ever larger power plants began to be constructed in locations far removed from utility load centers (mostly cities). The transmission system took on great importance, first in terms of coordination among owners and then later in terms of providing non-discriminatory access to other utilities and independent power producers, including wind farms. Over time our coordinating entity, SPP, became a full-fledged Regional Transmission Organization (RTO) with authority to require new transmission construction, direct operation of the transmission system and set the terms for connection of new generation sources and accommodation of new transmission service requests.

With its expanded RTO powers SPP has streamlined the planning and study process and, with approval by the Federal Energy Regulatory Commission, changed the

way transmission lines are paid for. Now most transmission lines at 345 kV and above are paid for by customers all across the SPP footprint, not just by customers of the constructing utility. However, lower voltage lines like those that are the subject of HB 2623 are paid for two-thirds by local utility customers and only one-third by all customers across SPP.

This distinction takes on increasing importance now that the SPP, as directed by FERC in Order 1000, has established a competitive bidding process for construction of many new transmission facilities. When legislation was first introduced a couple of years ago to preserve Kansas utilities' "right of first refusal" (ROFR) to build facilities SPP deems necessary, Midwest Energy took no position on the legislation. Midwest Energy competitively procures most of the services it needs. We had some concerns about the possible fragmentation of the transmission network and operational or other difficulties that might result. Other SPP members had similar concerns, and there were various proposals to include a similar ROFR in the SPP tariff, though such provisions were not ultimately approved. But we held out hope that a competitive transmission procurement process could actually lower costs for our customer-owners. We have yet to see evidence to that effect.

The cost of transmission service for our customer-owners has nearly tripled in recent years, rising faster than any other single component of our costs of service. So far the extra cost has resulted in benefits that we believe (though we can't be completely certain) more than offset the higher transmission costs. Those benefits relate to providing our customer-owners with access to lower cost generation throughout the Southwest Power Pool, including both fossil and renewable energy sources. We've also seen lower line losses, meaning more of the energy we buy on the wholesale market gets delivered to our customers. Midwest Energy does not look at the SPP as a market within which it seeks to build transmission paid for by others. Rather, transmission is simply a tool (and a critical one) by which Midwest Energy assures reliable service at the lowest achievable cost.

Now we get to the crux of the problem. There is no evidence so far that Order 1000 and competitive procurement of new transmission lines will save our customers

money. The evidence is that Order 1000 will increase costs. As SPP prepared to implement Order 1000, proposed transmission projects increased more than 10-fold as new companies, including many with no responsibility for serving retail customers, saw an investment opportunity. Perhaps in recognition of a relatively small need for new transmission in this era of stagnating utility loads only one competitive transmission project has been awarded to date. And boy, does it tell a story.

Midwest Energy has closely followed the unfortunate progress of that project, the Walkemeyer – North Liberal 115 kV transmission line. Note that at that voltage, Sunflower's customers, including Midwest Energy, will pay two thirds of the cost of the line, two thirds of the cost of a line that is no longer needed, two-thirds of the cost of a line that was approved by the SPP Board of Directors without an approval recommendation by SPP members.

Besides the unfair cost burden for an unneeded line, the cost allocation formula itself highlights the predominantly local service provided by under 200 kV transmission lines. Shouldn't the local utility responsible for keeping the lights on take primary responsibility for designing a local transmission system that does so at the lowest cost consistent with maintaining reliability? Midwest Energy thinks the answer is yes. HB 2623 does not and cannot stop construction of the Walkemeyer – North Liberal transmission line. But it does send a signal, as other neighboring states have done, that Kansas will discourage wasteful duplication of facilities and will hold utilities accountable for managing costs and reliability.

Before closing I need to say more about reliability. I am concerned about where Order 1000 may lead us over the years. Consider Midwest Energy. We serve electric customers in 27 counties over hundreds of miles of sub 200 kV transmission lines. Our lineworkers bear responsibility for vast amounts of territory, mostly accessible through pasture gates, oilfield roads, dirt roads and sand roads. A paved highway is a luxury. As recently as last week heavy wet snow and high winds resulted in a majority of our electric customers experiencing an outage, in some cases multiple outages. Thanks to our integrated system with a single point of control over line switches and breakers almost all customers were back in service in a few hours.

Imagine a future where Midwest Energy facilities are interwoven with, or subordinate to a patchwork of independently owned and operated transmission lines, likely designed to different standards. How will customers be able to receive timely restoration of service when multiple entities are involved? Where will the people and equipment be located to take care of those non-Midwest energy lines? Even if we were permitted to restore service we would need to work with a second or multiple owners to obtain permission and assure safe access at each point where lines are down. We would need access to inventory for each owner's lines. It just doesn't make sense for a small utility. Frankly it makes no sense for any utility, even large ones, to compromise the integrity of their integrated system for delivering electricity.

Note that HB 2623 does not touch the competitive procurement process for higher voltage transmission facilities. We accept that such facilities, at least at 345 kV and above, serve the region, not just the individual transmission-owning entity. We can only hope there is a benefit from Order 1000 at such voltages at some point in the future. But until SPP awards a competitive project someplace besides a small corner of southwest Kansas we won't know.

HB2632 is a step in the right direction toward preserving the integrity of the local transmission and delivery service, and protecting the interests of the retail customers served by electric utilities in Kansas. It deserves your support.

Thanks again for this opportunity. I would be pleased to answer any questions.