



Testimony Provided to the

House Energy & Environment Committee

February 12, 2016

Paul Mahlberg, General Manager

In Opposition to H. B. 2623

Members of the House Energy and Environment Committee:

Thank you for the opportunity to provide testimony in opposition to H.B. 2623. Kansas Municipal Energy Agency (KMEA) was officially formed in 1980 under Kansas law as a quasi-municipal corporation established as a nonprofit joint action agency made up of electric municipalities.

The Agency was authorized by Act, to plan, finance and construct projects for the purchase, sale, generation and transmission of electricity for the purpose of securing an adequate, economical and reliable supply of electricity and other energy for its members.

Today over 70 Kansas municipalities are KMEA members. These cities have come together to strengthen their effectiveness in dealing with common challenges. Through the joint action approach, the cities employ the Agency to undertake projects that they would find impractical if attempted separately.

KMEA opposes this legislation as described below:

1. Municipal utilities have long sought the ability to participate in transmission investment.

Municipal utilities have largely been underrepresented in (or prevented from participating in) transmission ownership on a larger scale. This bill would perpetuate this disparity and continue to effectively block participation by municipal utilities in the development and investment in the electric transmission grid. Municipal utilities play an essential role in serving the needs of Kansas. There are 118 municipal electric utilities. Collectively, we represent approximately 16% of total Kansas load. Having the ability to invest in transmission not only serves to ensure our mission of providing the most reliable service at the lowest reasonable cost, but provides a hedge to our communities against rising energy and transmission costs.

2. Investment in transmission infrastructure is needed.

The electric grid is aging. This is true nationwide and in Kansas. Most of the electric grid was built about 30-50 years ago. Compared with a decade ago, there is increased focus on investment in electric transmission facilities, but we are still below the levels of additions in the 1960s and 1970s. Investment is needed, and municipal utilities can and should be permitted to play a role in this investment.

3. Municipal participation is a win for all.

Municipal participation in transmission investment provides benefits to the state and to Kansas ratepayers. Generally, municipalities are able to obtain financing at lower costs. This not only benefits the municipal ratepayers, but all ratepayers because it lowers the total project costs.

4. Municipal investment often takes the shape of joint development with other parties.

For local projects, municipal utilities should be provided with the opportunity to build that project, either as a solo investor or as a joint investor. In many cases, transmission projects will be too large for a municipal utility to take on as a solo investor. Thus, municipal transmission investment often takes the form of joint participation with larger utilities. Currently, without this bill, municipal utilities can and are partnering with independent transmission companies so to develop and construct projects that are intended to provide more reliable service at the local and regional levels. This is a good development for all ratepayers. If this bill is adopted in Kansas, particularly as currently drafted, municipal utilities will once again be effectively precluded from investing in transmission, even when it means improving the local reliability for their own utility. This would be a step backward for Kansas.

5. This bill would deny Kansas ratepayers the benefits of competition.

If this bill is approved, incumbent utilities will have little incentive to be cost-efficient because they would be automatically selected to build and own transmission projects within their service territory.

Diversifying the pool of potential transmission owners creates a greater degree of technical and cost efficiency.

- a. Technical Efficiency: Non-incumbent developers that can compete to build and own transmission projects will have an incentive to propose creative transmission solutions in planning processes. A planning process that can consider only the proposed solutions of incumbent utilities will lack the greater choice and ability to compare efficiencies that an open planning process has. Because regional planning processes have the mandate to choose the most

efficient transmission projects, a greater pool of proposed projects will allow competing utilities to fine-tune their proposals increasing efficiency each subsequent planning cycle.

- b. Cost Efficiency: Competition among transmission developers can lead to great cost savings for ratepayers in Kansas.

6. This bill may have a negative impact on local planning.

No entity has the luxury of unlimited investment capital. Limited investment capital means that an incumbent may have to choose between regional projects and local projects. A utility that has not been selected to develop a regional project would have the ability to focus more on local projects, and could build those projects rapidly to meet its reliability requirements. These local transmission solutions are often first identified in local planning processes and rolled over to the regional plan.

Thank you for the opportunity to provide testimony in opposition to legislation that would be detrimental to the municipal electric utilities across Kansas. The right-of-first-refusal concept favors only those utilities who currently own and operate transmission assets in Kansas and denies opportunities to transmission dependent utilities seeking to provide reliable and affordable power to customers.