Before the Senate Committee on Utilities

March 22, 2023

House Bill 2225
Proponent Testimony

Submitted by Justin Grady—*Chief of Revenue Requirements, Cost of Service and Finance*
On Behalf of
The Staff of the Kansas Corporation Commission

Chair Olson, Vice Chair Petersen, Ranking Minority Member Francisco, and members of the Committee, thank you for the opportunity to provide testimony to your Committee today on behalf of the Staff of the Kansas Corporation Commission (Commission).

<u>Executive Summary</u>

The Staff of the KCC is supportive of HB 2225 as amended by the House Committee on Energy, Utilities, and Telecommunications (House Energy). Staff worked with members of House Energy, as well as Evergy, the Citizens Utility Ratepayer Board (CURB), and several other Kansas energy stakeholders to produce the compromise language that is contained within the amended version of HB 2225. We contend that passage of HB 2225 will improve KCC oversight over Evergy's local transmission investment plans and improve Kansas' regional rate competitiveness.

The open and transparent review process contained in the amended legislation will make Evergy accountable to regulators and the public and it will improve understanding about Evergy's local transmission investment plans. HB 2225 will also improve Kansas' regional rate competitiveness because Evergy's local transmission investments will earn the KCC-authorized Return on Equity (ROE) instead of the Federal Energy Regulatory Commission (FERC) authorized ROE. Currently Evergy earns 10.3% to 11.1% ROE on its transmission investments while the KCC-authorized ROE is 9.3%.

We estimate that this lower ROE will lower Kansas retail rates by approximately $10.6 million in 2024, with the savings growing by approximately $2 million annually thereafter for the next three years. This equates to $.30-$.45/month for an average residential customer of Evergy, depending on service territory and which Evergy subsidiary is the operating utility.

<u>Background and Support</u>

HB 2225 makes improvements to K.S.A. 66-1237, otherwise known as the Transmission Delivery Charge (TDC) statute. HB 2225 would provide for enhanced public accountability and a KCC review process for Evergy's local transmission projects, which are planned and directed by Evergy, outside of any Regional Transmission Organization (RTO) or FERC-directed process. Additionally, HB 2225 would result in lowering the ROE that is allowed for local transmission projects from the current FERC-authorized return to the KCC-authorized return.

This change would not affect the utility's ability to include in the TDC transmission projects which are planned or directed by an RTO or the FERC. Nor will it affect cost recovery for costs which are otherwise outside the control of the utility such as FERC or Southwest Power Pool (SPP) administrative costs.

The result would level the playing field for authorized ROEs between local transmission, generation, and distribution investments as well as provide for enhanced KCC oversight for approximately 40% of Evergy's capital expenditures. Because these capital expenditures would receive a KCC-authorized return, which is historically less than the FERC-authorized return, this change would also improve the State's regional rate competiveness. We calculate an approximately $9 million (2.85%) reduction in the Evergy Kansas Central[1] (EKC) TDC charge as a result of this change. This equates to approximately $.47/month on an average residential customer bill. Evergy Kansas Metro's[2] TDC reduction would be approximately $1.6 million (3.8%), roughly $.30/month for an average residential customer. HB 2225 would only affect EKC and EKM, as any utility with less than 20,000 customers is excluded from the impact of this change. Smaller utilities are excluded because the cost savings of this change would not outweigh the additional rate case costs necessary to effectuate it.

Local transmission projects are completely within the control of the utility, similar to distribution or generation investments that the utility undertakes in order to meet its legal requirements to provide efficient and sufficient utility service at just and reasonable rates. Accordingly, we contend that it is unnecessary to provide FERC's incentive ROE for these local transmission projects. This would mitigate the preferred investment status that local transmission investment currently enjoys, by virtue of the FERC incentive ROE that it receives through the TDC.

In its current form, the TDC statute allows EKC and EKM to receive incentive ratemaking treatment, bypassing meaningful KCC regulatory review, for approximately 40% of annual capital expenditures. For the five years 2022 through 2026, transmission capital expenditures are projected at $2.04 billion out of EKC's $5.25 billion capital expenditure budget. The TDC Statute allows all of this investment to be passed through to Kansas retail customers automatically, within 30 business days of Evergy filing a "report" with the Commission. All charges are to be "conclusively presumed prudent", meaning that the KCC's review of these costs is limited to a mathematical audit of the accuracy of the filing, and to ensure that the charges have been previously included in the Transmission Formula Rate (TFR) filed at FERC. Additionally, these investments receive a ROE from FERC that is much higher than what is currently authorized by the KCC. Currently EKC earns a 10.3% ROE on its transmission investments while EKM earns an 11.1% ROE. The KCC authorized ROE is currently 9.3% for both utilities.

The TDC statue was codified into Kansas law in 2007, a time in which transmission investment in Kansas and nationally was lagging behind other types of utility infrastructure investment. This incentive ratemaking treatment had its intended effect, with EKC's Total Retail Transmission Cost increasing nearly threefold, from $110.55 million in 2010 to $310.01 million in 2022, as shown in the table below:

[1] Formerly Westar.
[2] Formerly KCP&L.

EKC Total Retail Transmission Cost			Docket No.
2022	$	310,014,297	22-EKCE-407-TAR
2021	$	289,613,738	21-EKCE-308-TAR
2020	$	251,681,294	20-EKCE-360-TAR
2019	$	248,202,497	19-WSEE-327-TAR
2018	$	255,900,262	18-WSEE-355-TAR
2017	$	244,621,574	17-WSEE-377-TAR
2016	$	231,948,024	16-WSEE-375-TAR
2015	$	224,861,730	15-WSEE-366-TAR
2014	$	217,637,518	14-WSEE-393-TAR
2013	$	174,056,297	13-WSEE-507-TAR
2012	$	164,628,391	12-WSEE-651-TAR
2011	$	127,903,900	11-WSEE-599-TAR
2010	$	110,551,694	10-WSEE-507-TAR
12-Year CAGR		8.97%	

We contend that now is the time to scale back this incentive ROE, in order to level the playing field between the return authorized for local transmission, generation, and distribution investments. Importantly, our recommended legislation preserves the current TDC ratemaking treatment for any transmission investment which is outside of the control of the utility, that is, transmission investment which is planned or directed by an RTO or FERC.

Thank you for the opportunity to offer our support for the amended version of HB2225 and the opportunity to appear before the Committee.