The Wind Coalition

Testimony Provided to the

House Energy & Environment Committee - March 19, 2013

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In Opposition to H.B. 2241

Chairman Hedke and Members of the Committee,

On behalf of the members of the Wind Coalition, I respectfully appear before you again in opposition to H.B. 2241. The Wind Coalition is a non-profit association formed to encourage the development of the vast wind energy resources of the south central United States. The Wind Coalition is active in two particular regions: the Southwest Power Pool ("SPP") and the Electric Reliability Council of Texas ("ERCOT") grid systems, which cover all or part of 8 states (Texas, Oklahoma, Kansas, Nebraska, Missouri, Arkansas, New Mexico, and Louisiana). The Wind Coalition's members include developers, owners and operators of wind farms, turbine and component part manufacturers, law and engineering firms and public interest advocates.

The Kansas Policy Institute summed it up best in its March 11, 2013 e-newsletter: "*As you get further into the weeds on tax and spending issues it is often easy to forget why these items usually lead the public policy debate - jobs and economic growth. The point isn't to <u>just</u> cut spending or <u>just</u> lower taxes, but to create an environment in which more people can find good, stable jobs and provide for their family.*"

The RPS done just that - it has lead to a tremendous amount of new jobs and investment in Kansas across the state in both rural and urban communities. And it has served for a economic development tool used by many to attract new business and industry to Kansas - companies like Siemens, Mars, Google and many others. There are 8-10 new suppliers in site selection for new facilities. Kansas is on their radar screen, but they are waiting to make a decision until there is further clarity on federal and state renewable energy policy.

History

The comprehensive energy deal between Governor Mark Parkinson and Sunflower Electric Power Corporation was codified in law on May 22, 2009. The multi-faceted bill, HB 2369, reflective of the agreement between the State and Sunflower, included an renewable portfolio standard requiring investor-owned utilities and electric cooperatives to integrate 10% renewable energy by 2011, 15% by 2016 and 20% by 2020. The bill required that a portion of the average of the utilities' three previous peak demands by met with renewable generation capacity or renewable energy credits (RECs).

Under the measure, the RPS may be met with power from wind or solar energy, landfill gas, biomass, energy from net metering and new or existing hydropower, to name a few. Capacity built in Kansas after January 1, 2000, is given an extra 10% capacity rating toward compliance. RECs may be used to comply with the RES in the years 2011, 2016, and 2020, and in any other years the Commission allows. There is a 1% cost impact escape clause for utilities as well.

Most of the electric cooperatives have exceeded the 20% benchmark as has Empire Electric District.

KCP&L and Westar have nearly met the 15% benchmark.

Rate Impacts
The Kansas Corporation Commission (KCC) provides two annual reports to the Legislature regarding cost of compliance with the RES. The first report has been given to the Legislature in the fall and the second report (a new requirement as of the 2012 Legislative Session) was released on February 28, 2013.

According to the KCC, compliance with the RES has had a **"0% - 1.7% impact on rates"** (October 2011 and November 2012) and "the rate impact of the RES is about 0.16 cents per kWh—that is **RES energy counts for about 0.16 cents kWh of the about 9.2 cents per kWh retail electricity cost in 2012 across the state**. Thus, meeting the RES requires less than 2% of the revenue requirement of the utilities while supplying more than 10% of the generation capacity in the state (KCC Report - February 28, 2013).

"Flat Ridge 2 wind power could lower SWEPCO customer bills in 2013 by roughly $.05 per monthly bill for customers using 1,000 kilowatt hours and $.11 per monthly bill in 2014." – SWEPCO

Alabama Power, a subsidiary of Southern Company, is "absolutely looking for more wind power" to import from Midwestern states. Noting that Alabama does not have good wind resource. **"Wind energy is cost-effective for the utility's customers and helps diversify its fuel mix."** - Michael Sznajderman of Alabama Power.

Signal to Industry
The current discussion on the Kansas RPS is potentially harmful to both Kansas wind development and manufacturing interests. Delaying or lowering the anticipated demand for wind energy by delaying the RPS raises the risk of investing money in Kansas wind. It sends a message to developers, manufacturers and to finance entities that the Kansas' commitment to its wind resource development is weakening. To those making decisions on the investment of the substantial resources necessary to build turbines or create wind farms, the discussion in this legislature can sound louder than may be intended.

Energy industry participants and policymakers across the nation are closely watching Kansas. This debate is about the competition for jobs and capital investment. Developers and component part manufacturers are watching. The states with favorable environments win capital investment. And to be sure, China is waiting in the wings. With more than $20B invested on their part in renewable energy technologies, they are waiting to be the supplier to US – the United States. Did you know that just a few years ago, the United States had a large market share of solar panel manufacturing? Now, the only solar panels that are manufactured are made in China. Just as we have ramped up component part manufacturing in the US – 65% of the turbine is now made in the US compared to 25% in 2005 – our support for these jobs is waning. Wind jobs and investment is important to Kansas - to all of our communities. Big and small. Rural and urban.

In today's highly competitive effort to attract new business, many factors come into play. The appeal of states that value renewable energy can be seen in both wind manufacturing companies as well as companies value sustainability like Google, Mars, Intel, Kohl's, Microsoft, Sprint, Whole Foods, Dell, McDonalds, Chipotle and the like. Ed McCallum, a Senior Principle of McCallum Sweeney Consulting was recently quoted in *Trade and Industry Development Magazine*; " Having been involved in several site searches for renewable energy companies, wind in particular, the question always arises about the finalist state's position regarding RPS. Many times it makes the difference between winning and losing the project."

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Drivers of Cost

Appropriately so, a great deal of time has been spent this session and last discussing the cost drivers for electric utilities in recent years. Capital investment in transmission and generation, and environmental retrofits to meet new guidelines have been driving forces of the recent cost increases. However there are many more factors that play into the cost increases utility customers have seen. Last session, an amendment was added to a bill (SB 419) requiring the KCC to issue a report on all the factors driving cost changes on an electric utility customer's bill. The amendment did not advance. Nevertheless, such information would be very useful to policymakers and ratepayers.

Conclusion

Kansas is perhaps one to three wind projects away (about 550 MW) from full compliance with the stated RPS. When passing legislation like the machinery & equipment exemption, PEAK or last year's tax package, the assumption is made that the benefits outweigh the cost because the state's economic outlook as a whole will improve by the new jobs and investment made by small business and industry. How is the RPS any different? Three and a half years later, we can say definitively that the costs of compliance have been minimal, but the gains significant. Unparalleled in fact, in some of the rural areas. How else would Elk County have received a 50% annual boost in county coffers without Caney River? Thousands of new jobs and billions of dollars in new investment - primarily in rural Kansas stemming from a policy with a known impact of 0% - 1.7%. If I was a hedge fund manager and used to big returns, I would say Kansas has done well for itself.

The discussion on RPS is about jobs, and growing the Kansas economy. We have proven in three short years that we are an industry which delivers to Kansans. HB 2241 in its present or amended forum will have a chilling effect on investment. The signals sent by this Legislature will determine whether new jobs and investment occur in Kansas or just across the state lines in either Oklahoma, Missouri, Nebraska or Colorado. As Kansans, we should all want to see the jobs and investment remain here in our state.