

**Testimony of Kansas Industrial Consumers Group  
In Support of SCR 1612  
Before the Senate Commerce Committee  
March 12, 2018**

The Kansas Industrial Consumers Group (KICG) is a coalition of large-volume energy users in Kansas. The eight companies that are part of KICG account for about 42 percent of Westar's industrial sales. The members collectively represent billions of dollars of investment in the state and employ thousands of Kansans. We believe high energy costs are negatively impacting residential consumers, schools, hospitals, and large and small businesses.

As we are all of aware, electric rates have been increasing rapidly the last decade. This puts a strain on everyone's pocketbooks.

- KCP&L residential rates have increased 70% since 2007 (Attachment 01)
  - The Shawnee Mission and Blue Valley School Districts are among KCP&L's largest 20 customers.
  - KCP&L intends to file another rate increase request before summer.
- Westar's residential rates have increased 67% since 2007 (Attachment 02)
  - In the period of 2009 through 2017, Westar had 30 rate Increases and 6 Rate Decreases - for a "Net" total annual increase of \$646.1 million per year in 2017.
  - On February 1, Westar filed another rate increase request.

This is an issue that impacts all sectors--residential, commercial and industrial. Uniformly, all have seen significant increases the last decade. Importantly, especially for residential customers, the increases have far outpaced inflation and cost of living adjustments. (Attachments 03 and 04)

For a comparison to Kansas' important agriculture sector, electric rates have significantly increased while farm income has sharply declined. (Attachment 05)

Starting in 2017, Kansas' electric rates have become the highest in the region.

- Kansas compared to surrounding states (Attachment 06)
- Kansas compared to broader regional chart (Attachment 07)

For years, the investor-owned utilities (IOUs--Westar and KCP&L) have highlighted their competitiveness with the Midwest region and US average rates. That's no longer something Kansans can fall back on.

- Kansas IOU comparisons to IOUs in surrounding states (Attachments 08, 09, 10)

An important question we've been receiving is: *why is this happening?* There are a number of factors that we are aware of and surely some that we are not yet aware of. For starters, there was a period of time after the Wolf Creek nuclear generating plant came online that the utilities did not request increases, and did not have the pace of spending we've seen recently. During that period electric usage was increasing, and now, usage is mostly flat or declining. Absent increasing sales, utilities only make money by investing capital.

Large amounts of capital spending is the key driver of increases, particularly transmission spending. The Transmission Delivery Charge (TDC), authorized in 2003 and found in KSA 66-1237 allows Westar and KCP&L to quickly recover any transmission costs, including their own investments, through a surcharge on customers. These significant costs are further inflated by generous federal ratemaking treatments – all paid by Kansas retail customers with no state oversight due to the provisions of the TDC statute. We believe this impacts the utilities' commitment to control costs.

Escalation of the TDC has been very apparent on the Westar system. In 2008, the Westar TDC charge was about \$4.50 per month for the average residential customer. Today, the TDC charge is \$16.40 per month, making up over 10 percent of an average customer's bill. Westar recently filed another increase to the TDC. Again, because of the TDC statute, the KCC will have no control of it.

In addition to the TDC, IOUs have access to a number of other surcharges and cost trackers, including cost recovery mechanisms for:

- The Energy Cost Adjustment (ECA)
- The Environmental Cost Recovery Rider (ECRR)
- The Energy Efficiency Rider
- The Property Tax Surcharge (PTS)

High electric rates are bad for business and bad for the state. They are bad for everyone, from residential consumers to our schools and hospitals. For businesses, the challenge is acute. Companies have to compete within their own organizations for capital and operating funds. Many industrial customers have locations in other states. They can attest that electric rates are a driving factor in which states receive investments.

Simply put, high electric rates make recruiting to Kansas hard. Why would a company come to Kansas, when they can receive significantly lower rates in Oklahoma (Attachment 11) or Iowa (Attachment 12)?

The Commerce Department is aware of this issue and has attempted to be helpful. In recent news articles, Interim Secretary Bob North said (emphasis added):

*"We are aware of the issues surrounding the utility rate costs in Kansas compared to neighboring states, and are working on facilitating meetings between utility companies and industry representatives to help mitigate those rates and put Kansas in the most competitive position possible," he said. "These issues are very complex and will take a great deal of effort to resolve, but Kansas needs to be more competitive with surrounding states."*

--Feb 11, Sunflower State Journal (Attachment #13)

--Feb 12, Topeka Capital-Journal (Attachment #14)

KICG has been active at the Kansas Corporation Commission for over twenty years. The extreme escalation of electric rates -- and the fact the Westar and KCP&L plan to spend \$6 billion over the next five years -- prompted alarm. We decided it was prudent to involve the Legislature. We don't do this lightly. KICG has never been active in the Legislature.

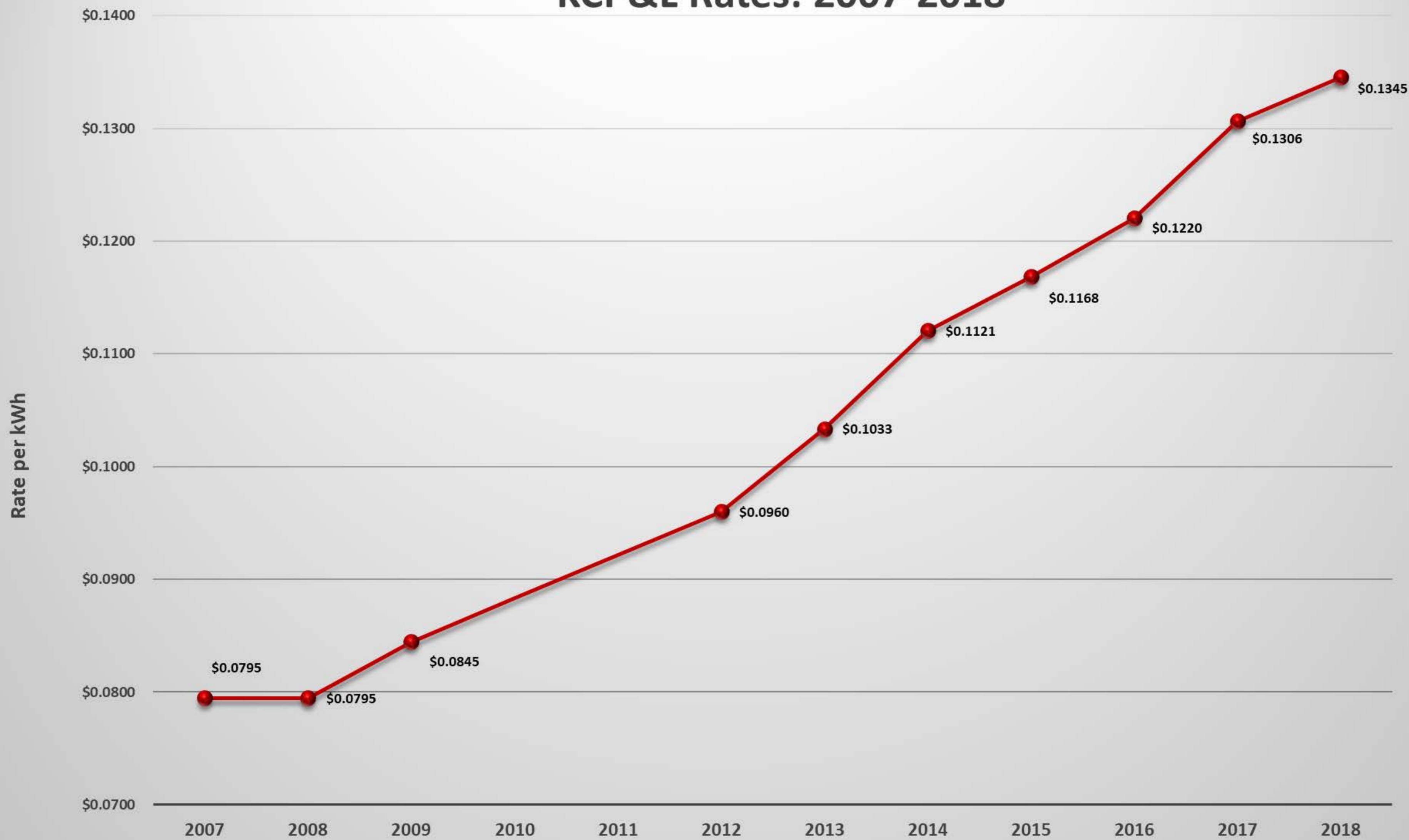
We believe SCR 1612 can help. It helps acknowledge high electric costs are a problem for the state. The resolution asks the KCC to take steps to address it, and if they can't, to report back to the Legislature on additional tools they may need. We believe ultimately this issue will require prompt study and conversation between legislative leaders, the KCC, utilities, the Commerce Department, other stakeholders, and importantly, consumers. An immediate and timely study of the problem—that identifies any and all areas of action—is a first step; but regionally competitive electric rates for Kansas, within a reasonable time frame, must be the goal.

SCR 1612 is a good first step and I urge your support.

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# KCP&L Rates: 2007-2018

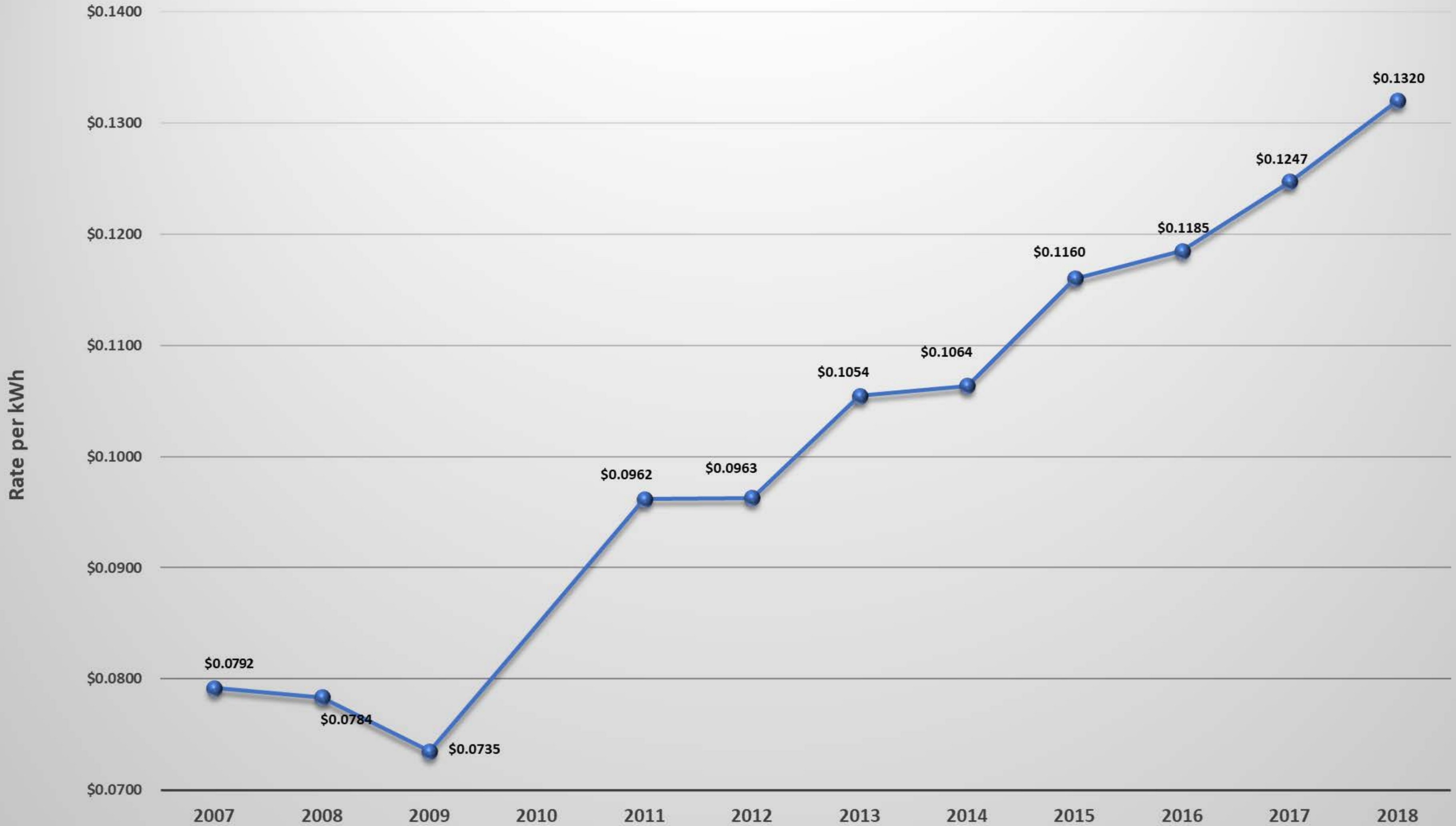


## Percentage Increase Since 2007

KCP&L Electric Bill - 70%

Source: KCC Annual Reports to Legislature; Average residential electric bill without taxes; 2010 Rate Data not available; 2011 KCP&L Data removed - cannot be verified as accurate

# Westar Rates: 2007-2018

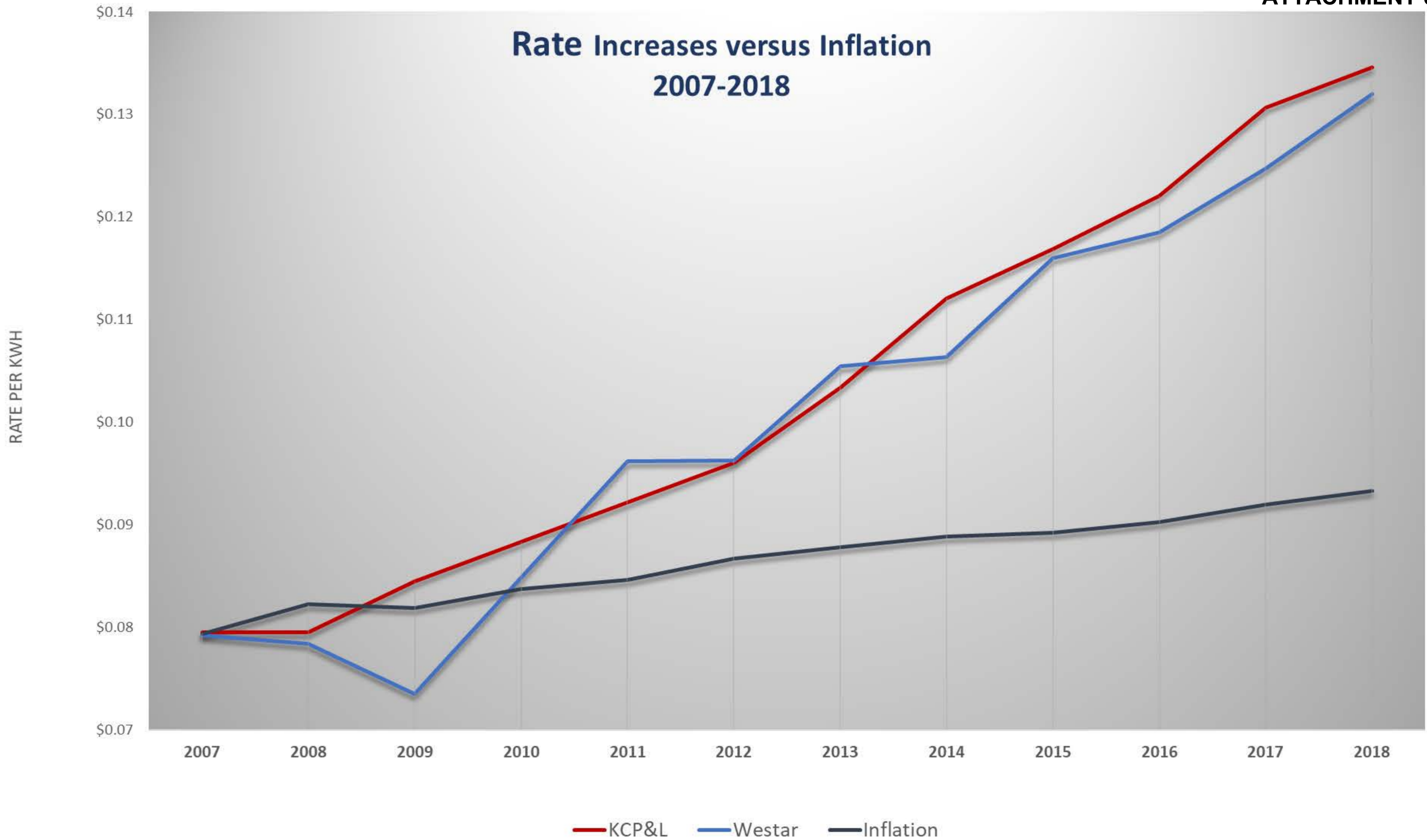


## Percentage Increase Since 2007

Westar Electric Bill - 67%

Source: KCC Annual Reports to Legislature;  
Average residential electric bill without taxes;  
2010 Rate Data not available.

## Rate Increases versus Inflation 2007-2018

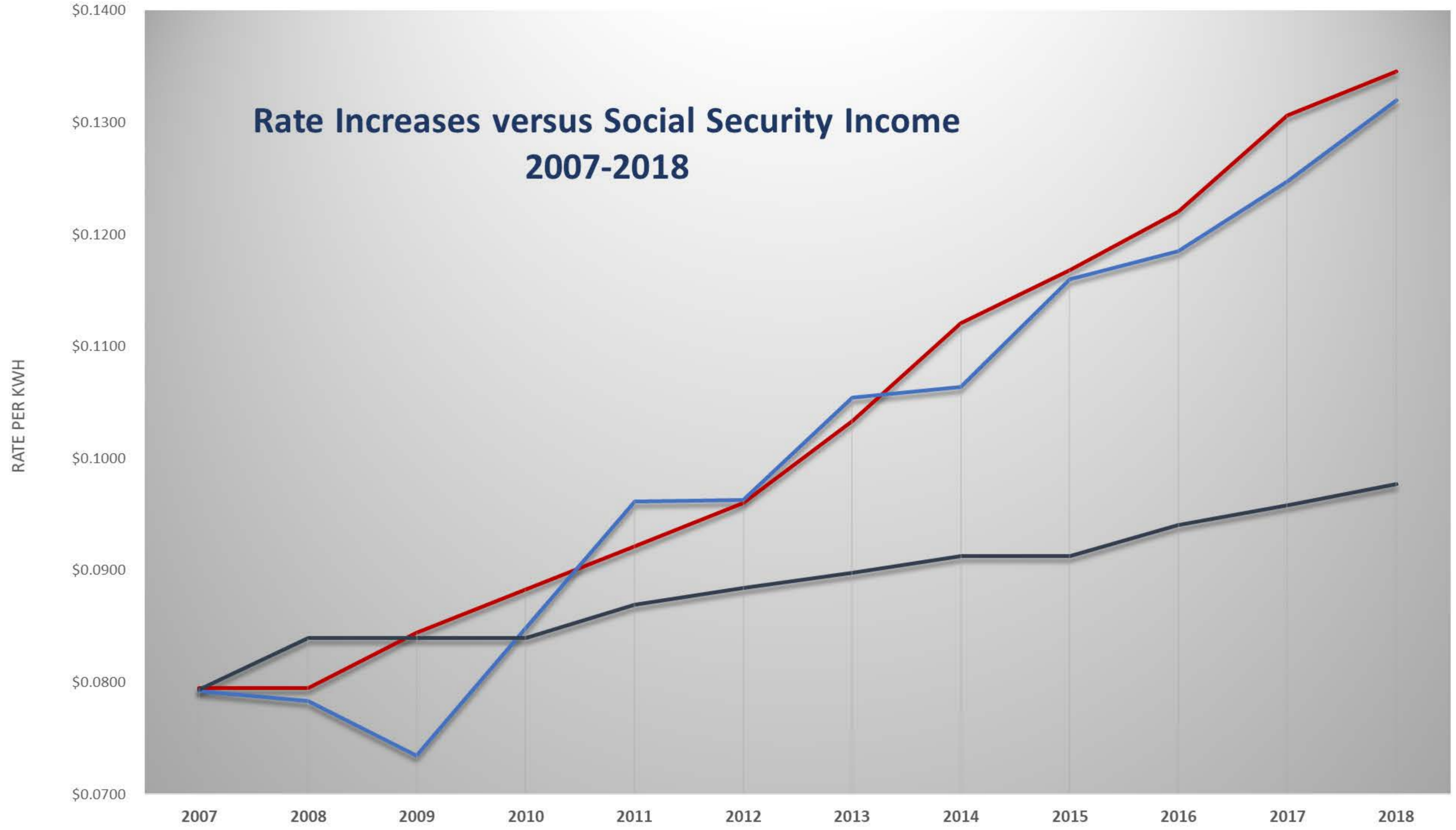


**Percentage Increase Since 2007**

KCP&L Electric Bill - 70%  
 Westar Electric Bill - 67%  
 Inflation - 18%

Source: KCC Annual Reports to Legislature; Average residential electric bill without taxes; 2010 Rate Data not available; 2011 KCP&L Data removed - cannot be verified as accurate. erified as accurate  
 Annual inflation rates: U.S. Bureau of Labor Statistics using CPI-All Urban Consumers

## Rate Increases versus Social Security Income 2007-2018



**Percentage Increase Since 2007**

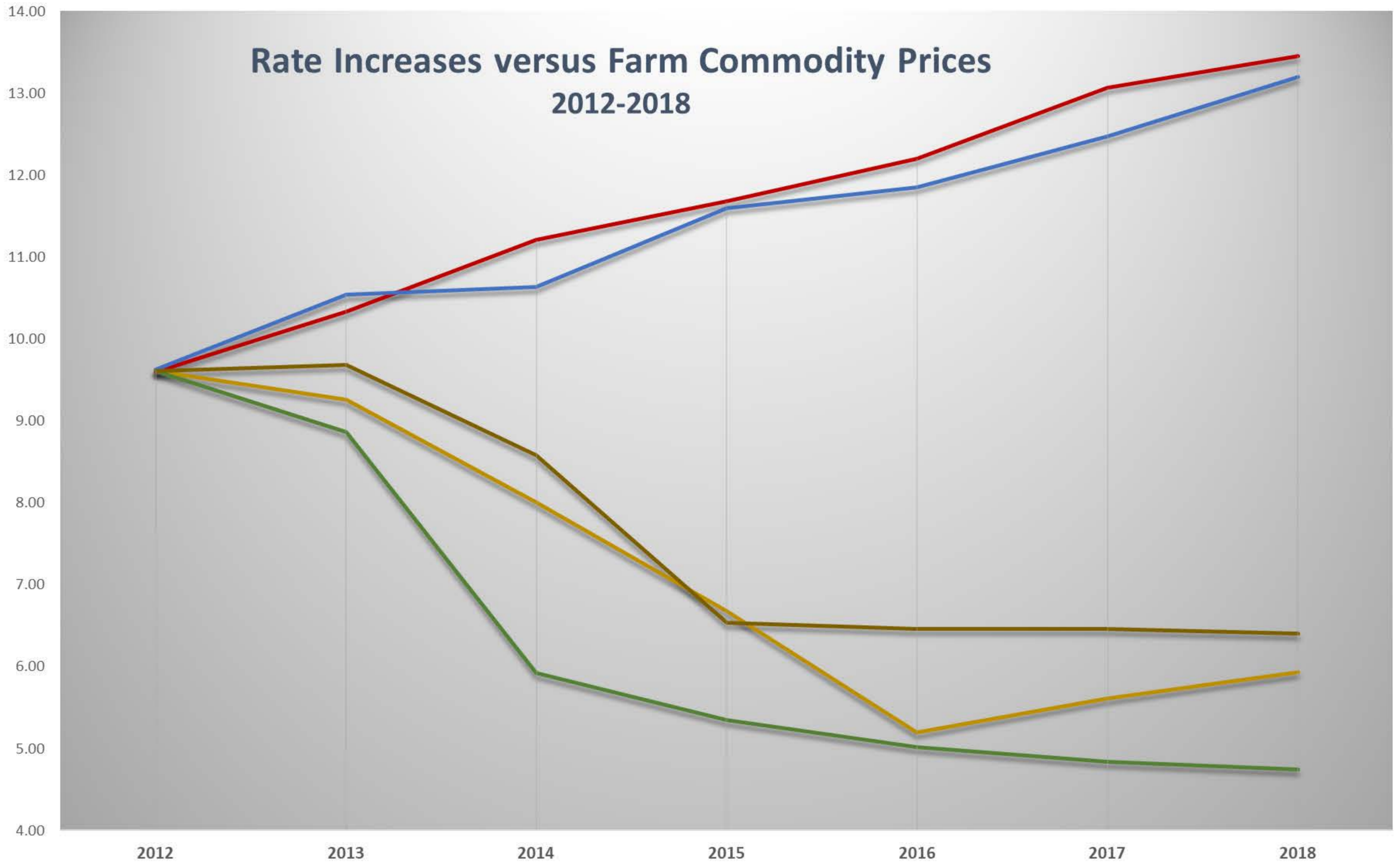
KCP&L Electric Bill - 70%  
 Westar Electric Bill - 67%  
 Social Security Cost of Living Adjustments - 23%

— KCP&L      — Westar      — SSI COLA Increase

Source: KCC Annual Reports to Legislature; Average residential electric bill without taxes; 2010 Rate Data not available; 2011 KCP&L Data removed - cannot be verified as accurate. SSI COLA 2007 to 2017 - Source: Social Security Administration: <https://www.ssa.gov/OACT/COLA/colaseries.html>

## Rate Increases versus Farm Commodity Prices 2012-2018

CENTS PER KWH



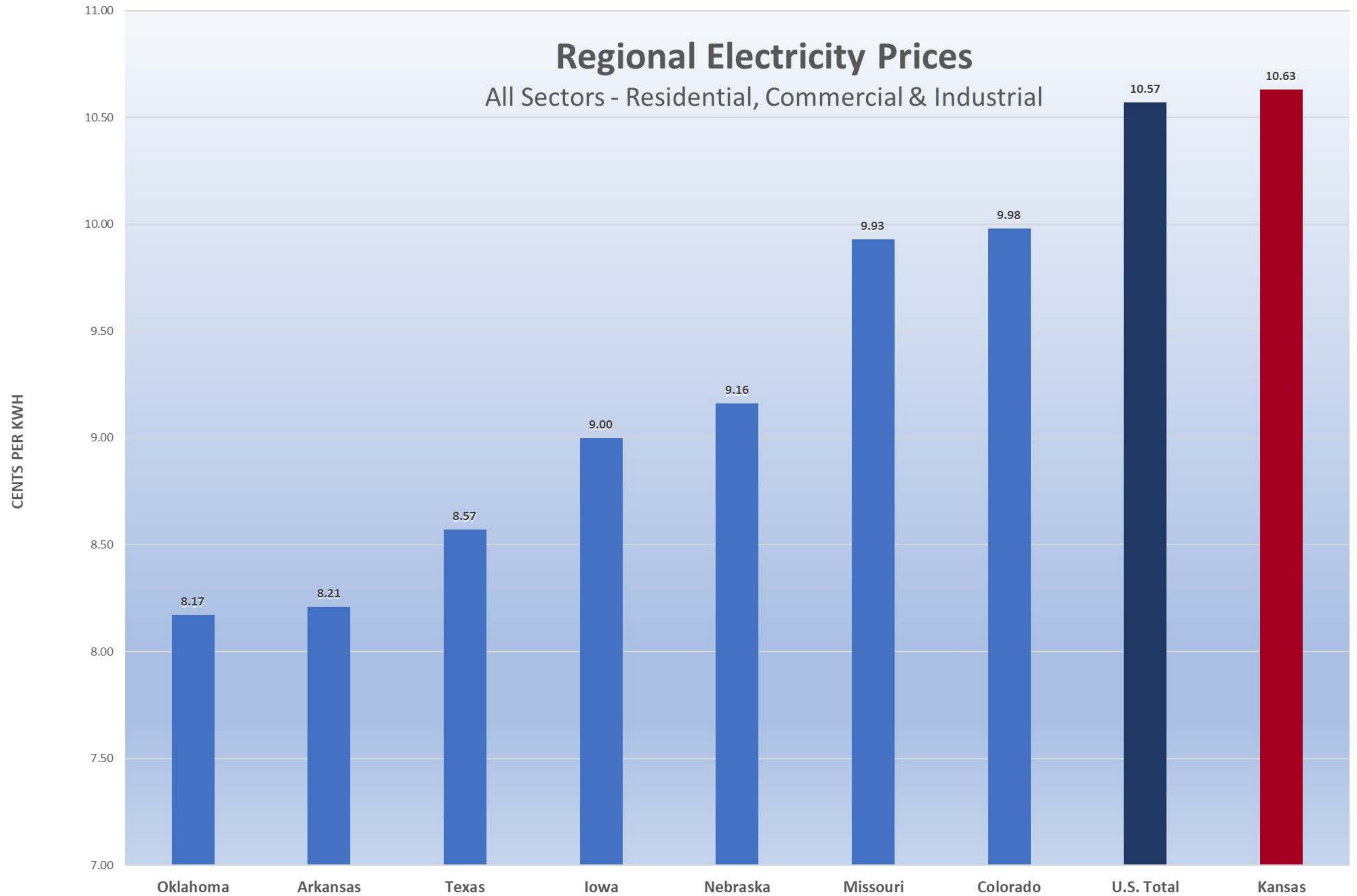
**Percentage Change Since 2012**

- KCP&L Electric Bill - 40% Increase
- Westar Electric Bill - 37% Increase
- Wheat Prices - 38% Decrease
- Corn Prices - 51% Decrease
- Soybean Prices - 33% Decrease

— KCP&L — Westar — Wheat — Corn — Soybeans

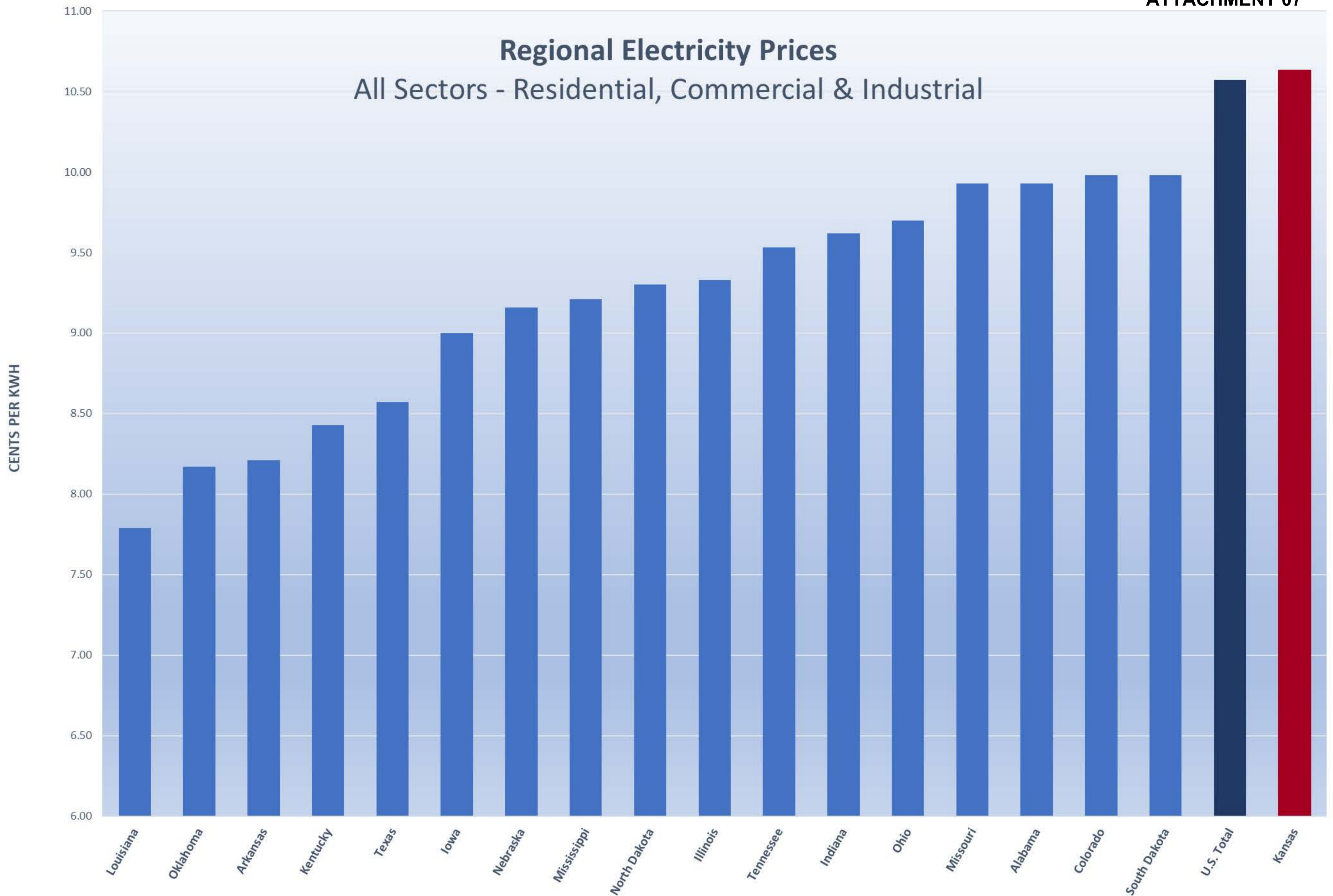
Source: KCC Annual Reports to Legislature;  
Average residential electric bill without taxes;  
2010 Rate Data not available  
Farm Commodity Prices: United States Department of Agriculture  
National Agricultural Statistics Service  
[https://www.nass.usda.gov/Charts\\_and\\_Maps/Agricultural\\_Prices/](https://www.nass.usda.gov/Charts_and_Maps/Agricultural_Prices/)





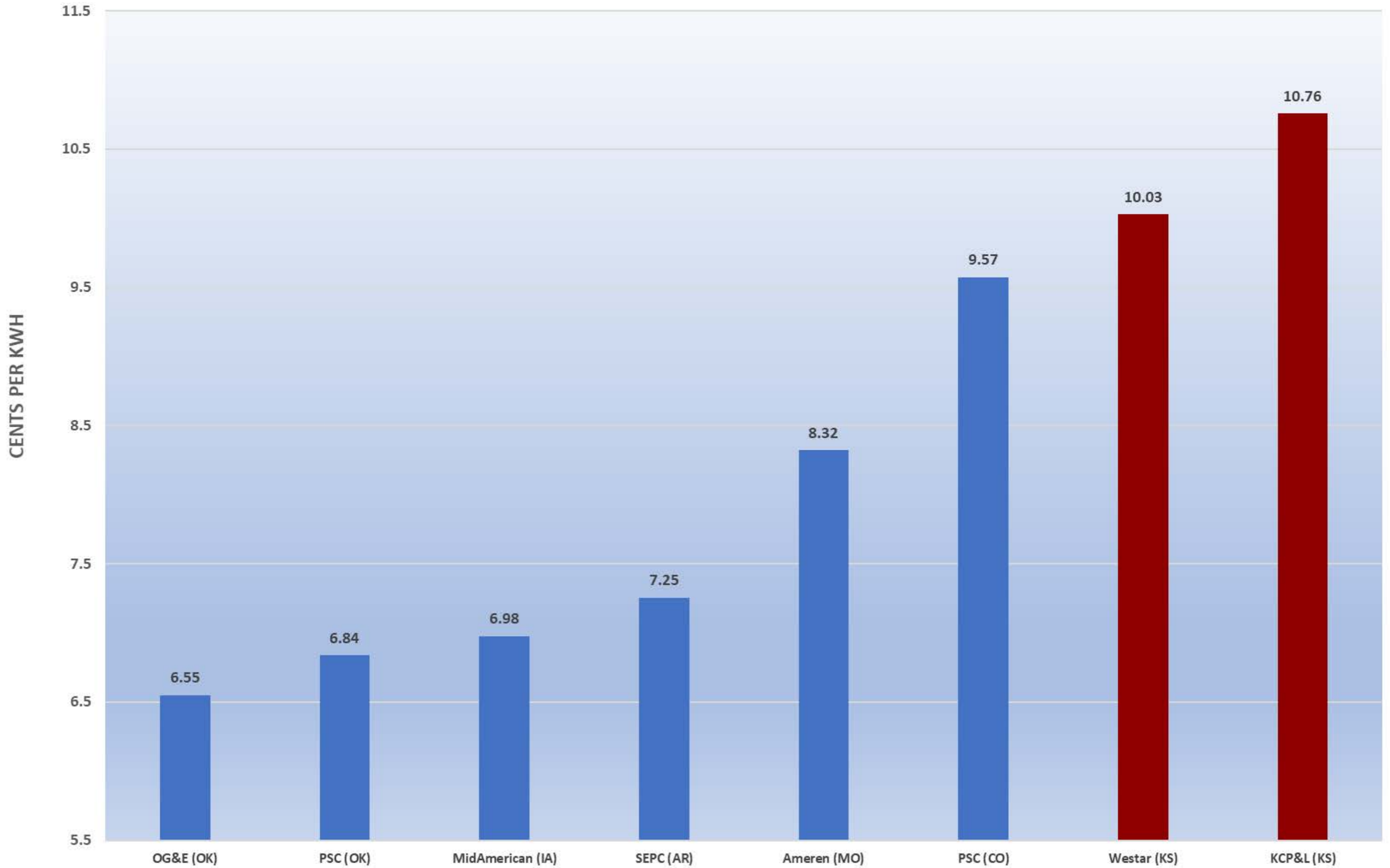
## Regional Electricity Prices

All Sectors - Residential, Commercial & Industrial



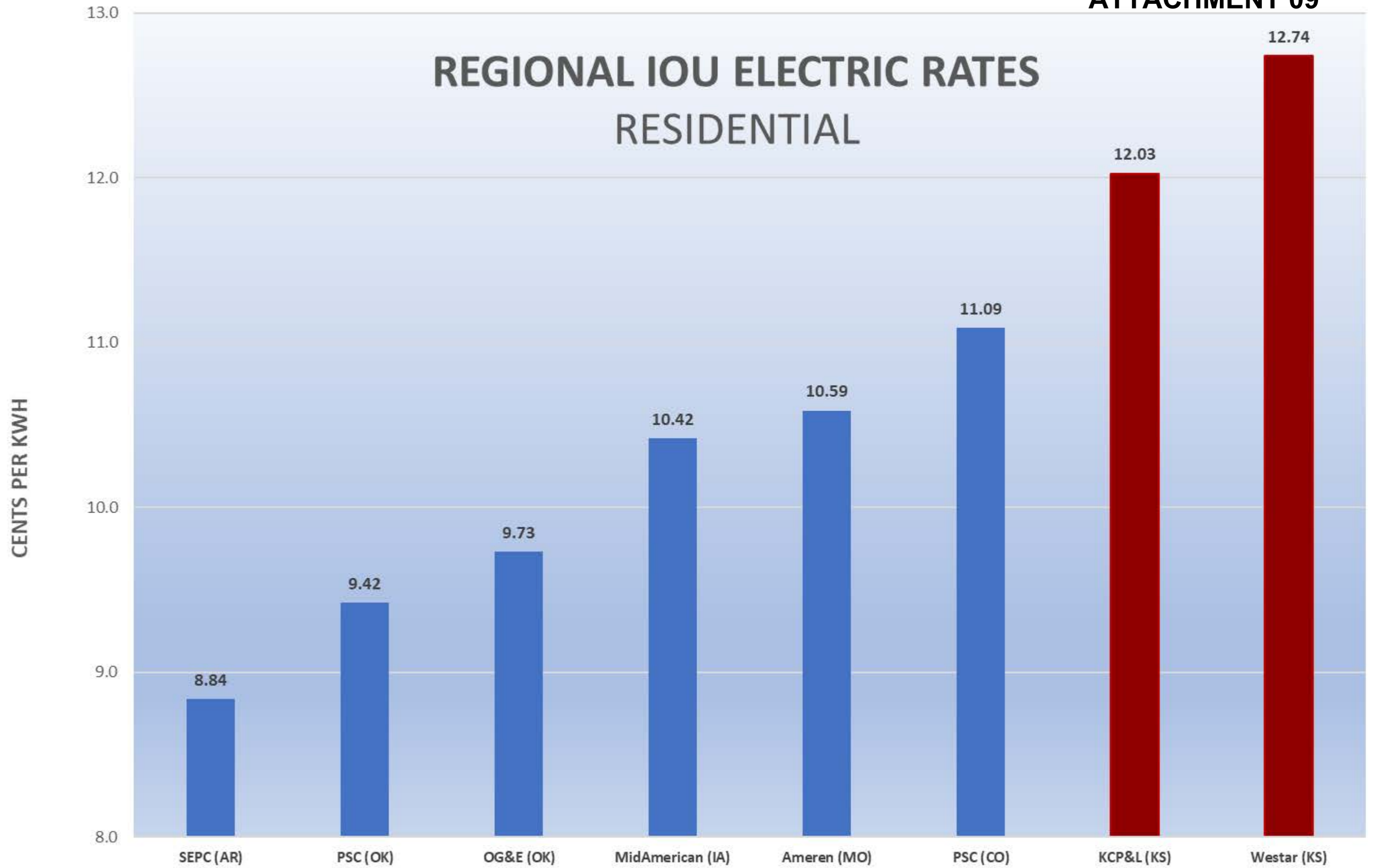
# REGIONAL IOU ELECTRIC RATES

AVERAGE OF RESIDENTIAL, COMMERCIAL,  
& INDUSTRIAL RATES



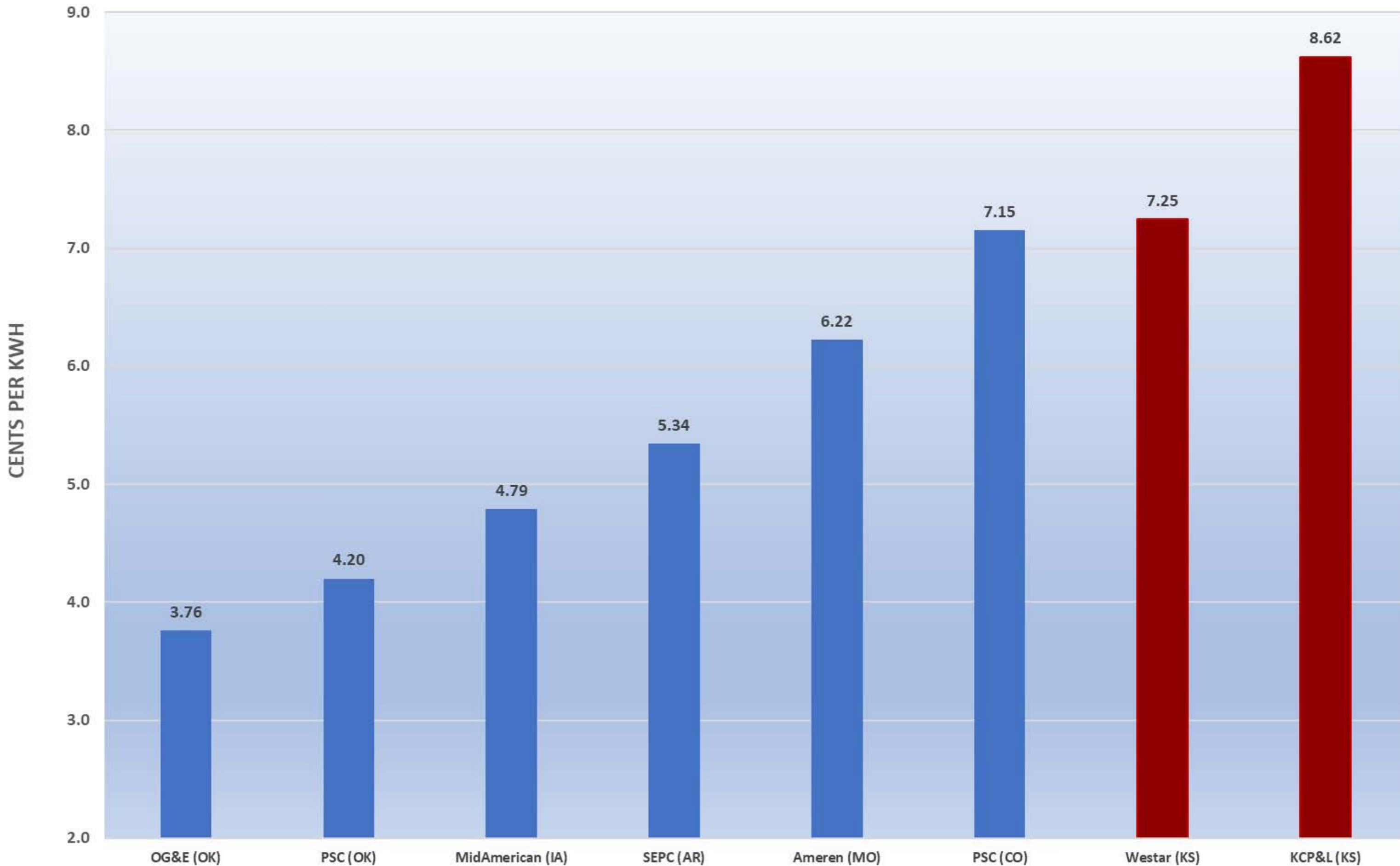
Source: Filed Rate Tariffs, Rates are weighted averages of 4 months summer and 8 months of winter EEl rates. Westar rates are consolidated rates including KG&E.

# REGIONAL IOU ELECTRIC RATES RESIDENTIAL



Source: Filed Rate Tariffs, Rates are weighted averages of 4 months summer and 8 months of winter EEI rates. Westar rates are consolidated rates including KG&E.

# REGIONAL IOU ELECTRIC RATES INDUSTRIAL



Source: Filed Rate Tariffs, Rates are weighted averages of 4 months summer and 8 months of winter EEl rates.  
Westar rates are consolidated rates including KG&E.

# Regional Electricity Price Trends

## Kansas vs. Oklahoma



Source: EIA Annual Average Retail Price of Electricity - All Sectors;  
<https://www.eia.gov/electricity/data/browser>

# Regional Electricity Price Trends

Kansas vs. Iowa



Source: EIA Annual Average Retail Price of Electricity - All Sectors; <https://www.eia.gov/electricity/data/browser>

# Storm brewing over surging electricity rates

By Brad Cooper - February 11, 2018

[www.sunflowerstatejournal.com](http://www.sunflowerstatejournal.com)



A storm's brewing at the Capitol over surging Kansas electricity rates, which are the highest in the region.

A coalition of high-volume electricity users —and some of the state's biggest employers —is sounding alarm bells about rising electricity rates that it believes hurt business and stymie economic development.

The group, which includes Kansas brand names such as Goodyear, Spirit AeroSystems, Bombardier, and Cargill, pin the blame on a series of electricity rate increases that have cost consumers hundreds of millions of dollars.

The Kansas Industrial Users group is calling for utility reform and has taken its case to Gov. Jeff Colyer's administration and the Kansas Legislature.

Legislation has already been filed that would cap the number of electricity rate increases to one per year per utility.

Another bill would require the Kansas Corporation Commission to report to the Legislature any time it approves raising electric rates greater than the consumer price index.

"Kansas has an energy problem," said Overland Park lawyer Jim Zakoura, who represents the Kansas Industrial Users group. "Our rates are simply too high and not competitive with the region."

Since 2012, the Kansas Corporation Commission has approved 36 rate increases, generating nearly \$650 million combined for Westar Energy and KCP&L, the two biggest utilities serving Kansas.



Many of the rate increases were approved under a state law that allows utility companies to levy surcharges on a customer's bill to recover the cost of property tax increases and complying with energy efficiency mandates.

Nevertheless, Kansans have seen their rates increase about 20 percent for all sectors, including residential, commercial and industrial, since 2012. The state now has higher electricity rates than all of its Midwestern neighbors.

Zakoura recently sent a nine-page letter to the Kansas Department of Commerce laying out various factors that contribute to rate increases approved by the corporation commission.

"In search of shareholder value, the Kansas investor-owned utilities have extracted significant wealth from Kansas families and businesses," Zakoura wrote. "They have left the state as an uncompetitive and unattractive location for new industry."

For instance, Kansans paid an average of 8.93 cents per kilowatt-hour in November 2011, according to the U.S. Energy Information Administration. That price rose to an estimated 10.63 cents per kilowatt-hour in November of last year.

At 10.63 cents, Kansas has higher electric rates than Missouri (9.93 cents per kilowatt-hour), Iowa (9 cents), Nebraska (9.16 cents) and Colorado (9.98 cents).

The price increase has been particularly stark for homeowners, who have seen about a 25 percent increase in electric rates from November 2011 to November 2017. Residential rates climbed to an estimated 13.32 cents per kilowatt-hour in November 2017 from 10.69 cents in November 2011.

Similarly, commercial businesses are paying about 19 percent more. Their rates rose to an estimated 10.53 cents per kilowatt-hour last November from 8.83 cents in November 2011, according to federal figures.

While rates are described in terms of cents, just one penny can mean millions of dollars an added expenses for a high-volume user.

Officials from Westar and KCP&L did not respond to questions emailed to them. The Kansas Corporation Commission issued this response:

"The Corporation Commission actively works with the Legislature to provide information and input on proposed bills affecting its regulation and jurisdiction.

"At the appropriate time, the KCC will participate in discussions and provide testimony related to the specific issues being raised. At this time, it would be premature to comment."

Interim Kansas Commerce Secretary Bob North said his agency is aware of the rate disparity between Kansas and neighboring states.

The department, he said in a statement, is "working on facilitating meetings between utility companies and industry representatives to help mitigate those rates and put Kansas in the most competitive position possible."

North added the rate issues are "very complex" and will take a lot of effort to resolve. "Kansas needs to be more competitive with surrounding states," he said.

Among the factors driving rate increases, Zakoura argues, is the utility companies' interest in spending on infrastructures such as power generating plants and transmission lines.

The corporation commission, he said, must take into account the utility's cost of serving customers when it sets rates. As a result, the process "inordinately" rewards utility spending.

"Kansas investor-owned utilities have a financial incentive to spend money ... whether the investment is necessary or not," Zakoura wrote the state Commerce Department.

The coalition isn't necessarily calling on the utilities to stop spending, but rather to maybe spread out their spending so any rate increases can be more easily absorbed by the ratepayers.

"There needs to be more scrutiny over whether all the spending is necessary," said Andrew French, one of the lawyers representing the coalition.

The rate increases give some lawmakers pause, especially with the proposed merger of Westar and KCP&L parent company, Great Plains Energy.

"We need to be concerned about what the real outcome of that is going to be. Is it going to be beneficial to the ratepayers?" said state Sen. Gene Suellentrop, a Wichita Republican and a member of the Senate Utilities Committee. "I know they're concerned about their stockholders. We are concerned also about the ratepayers."

Suellentrop added, "We want to make sure we're competitive so we can pull companies into the state."

Republican state Sen. Julia Lynn of Olathe chairs the Senate Commerce Committee and says the high electricity rates put the state at a competitive disadvantage.

"It has become an issue when companies look at coming here or are already here, and they are noticing the rates are sky high," she said.

Zakoura's letter to the Kansas Commerce Department suggests that the corporation commission consider the state's competitive position when deciding rate increases.

"At no point in the...rate making process is the most important question asked: 'Are the electric rates, in total, comparable to the electric rates in surrounding states?' " he wrote.

"Without asking—and answering—this question, there is no assurance that Kansas residents are not paying inordinately high rates as compared to residents of neighboring states."

Failing to consider Kansas' position in the electricity market, Zakoura wrote, puts the state's industrial and commercial companies at a "dramatic and continuing disadvantage."

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**Brad Cooper**

## Competitive utility rates important to Kansas economic development

By Morgan Chilson

Posted Feb 12, 2018 at 6:07 PM

Updated Feb 12, 2018 at 6:58 PM

A push to force Kansas utilities to set rates that are competitive with other states in the region suffered a setback when the Senate utilities committee canceled a hearing Tuesday that would have addressed a bill tackling those issues head on.

Senate Bill 356 proposes that the state of Kansas urge the Kansas Corporation Commission to “take all lawful action to promptly set rates for retail electric service in the state of Kansas at regionally competitive levels.”

A staff person representing Sen. Robert Olson, who heads the utilities committee, said the hearing’s cancellation doesn’t mean the issue is off the table for the session. It was canceled because the committee had been dealing with several bills that took longer than anticipated. There are other avenues being considered around the topic of competitive energy rates, he said.

Kansas utility rates are a competitive issue, acknowledged interim Secretary of Commerce Bob North.

“We are aware of the issues surrounding the utility rate costs in Kansas compared to neighboring states, and are working on facilitating meetings between utility companies and industry representatives to help mitigate those rates and put Kansas in the most competitive position possible,” he said. “These issues are very complex and will take a great deal of effort to resolve, but Kansas needs to be more competitive with surrounding states.”

James Zakoura, president of the Kansas Industrial Consumers Group Inc., which represents large-volume utility users, said he remains hopeful action will take place to address the fact that Kansas is out of line with nearby states in what it charges industrial consumers.

“What I am hopeful is that it’s a mere pause and that the Legislature will look at this this session,” he said. “If the Legislature did not choose to look at this matter, we would be disappointed.”

Zakoura’s organization, which represents some companies that have between \$2 million and \$5 million a month in electric bills, put up a website recently, \_\_\_\_\_, to bring attention to how out of line Kansas rates are with area states.

The higher rates didn’t happen overnight. Zakoura said his industrial business members are pushing now because it’s become apparent that Westar Energy and KCP&L are trending toward more increases.

“When we look at the next five years and when the merged companies are talking about spending \$6 billion, \$4 billion of that in transmission, we see already high prices with a trend further up,” Zakoura said.

Zakoura created a comparison of investor-owned utility rates for industrial customers in surrounding states to more specifically show the differences. Westar Energy and KCP&L top the list with costs, respectively, of 7.25 and 8.62 cents per kilowatt hour. That compares to Ameren Missouri rates of 6.22 cents and OG&E in Oklahoma at 3.76 cents.

Such differences in electricity rates do impact economic development, said Molly Howey, vice president of business development and attraction at the Greater Topeka Partnership Inc., but it can be tough to tell how extensively.

“Utility rates is usually in the first round of Requests for Proposals for information,” she said of companies seeking community information to open or expand a business. “That tells you it’s pretty important if it’s in their first round of questions.”

Howey said she has no way of knowing how many companies eliminate Shawnee County right off the bat, not even making it to the point where they ask for an RFP, because of utility rates. It’s a critical consideration for companies such as manufacturers or data centers that use high amounts of electricity, but she said she knows of no projects lost that cited high utility rates as the specific reason. Usually the companies cite the high cost of business or a too-small labor pool.

Knowing the importance of utilities for some industries, Howey said utility company representatives are usually at the table if she is working with a company considering a location in the area. There are economic development riders that can be offered to companies based on how heavy their utility usage is, she said. Howey said she isn't privy to the final contracts, but she's positive that companies like Mars negotiated utility breaks.

Gina Penzig, Westar Energy spokeswoman, said the company is active in economic development, which benefits Kansas and the company itself by widening its customer base.

"We do have incentives that we can offer to companies that are looking to relocate in Kansas, or expand in Kansas," she said. "Depending on the amount of electrical load that would be added, looking at the number of jobs created, there are some different economic development packages."

Penzig said the companies being represented by Zakoura's organization have an average per-kilowatt cost of 6.10 cents, which is significantly below the average industrial rate of 7.25 cents. KIC represents the largest industries in Westar's service territory, she said.

"Our rates are competitive with neighboring states," she said. "Just like our customers, we're concerned with increasing electricity prices. In fact, that's one of the key reasons that we sought to merge and become part of a larger company. If you look at neighboring states, especially if you're talking about comparing industrial and business rates, a lot of times when you see those lower prices, those are utilities that are part of much larger energy companies."

Westar can negotiate special contract rates with industrial consumers, often based on unique benefits they can bring to the company's energy system. For instance, some companies will agree on hot summer days when electricity supply and the needs of customers might be a challenge, to shut down for a day or to move their system over to their own generation so Westar can assure customer needs will be met, Penzig said.

Those special contract rates are approved by the KCC, but are typically confidential.