SENATE COMMITTEE ON COMMERCE

Testimony in Opposition to SCR 1612 – Urging the state corporation commission to lower retail electric rates to regionally competitive levels.

March 12, 2018

Offered by Chuck Caisley, Vice President, Marketing and Public Affairs for KCP&L

Submitted on Behalf of:
Westar Energy and Kansas City Power and Light (KCP&L)

Westar Energy and Kansas City Power & Light together provide electricity to most Kansas homes and businesses, either directly, or indirectly, through our commitments to smaller municipal electric utilities and rural electric cooperatives. We share your concern about the significant rise in electricity costs over the past decade and the need to arrest that trend. We are doing something about that. We only grow and thrive when the economy is robust and our customers are able to operate competitively and grow.

We are fully regulated. Accordingly, the rates we can charge are appropriately limited to our costs; costs closely reviewed by regulatory auditors to make sure they are both prudent and needed to serve our customers. The Kansas Corporation Commission (KCC), its staff, and other intervening parties assure that any cost saving initiatives we undertake inure to the benefit of our customers.

The forces that have driven electricity costs higher over the past decade are formidable: federal environmental mandates; state energy mandates and policy objectives; increasing concerns about the security of the grid; and customers' expectations for reliable electric service able to meet the stringent demands of today's computer-controlled manufacturing equipment. For most of our history, increasing demand for electricity and exporting power to other states has helped mitigate cost increases. Over the last decade, an anemic economy coupled with a recession have nearly eliminated those tools to keep costs down.

These forces driving costs higher have triggered a commensurate effort on our part to resist and offset these forces with every tool available, including challenging federal regulations, lobbying against costly mandates, and taking every opportunity available to us as separate companies to operate more efficiently and offset higher costs.

Reductions in Federal Income Tax Expense

We have made public our unequivocal commitment, and agreement, that our customers—not our shareholders—will receive the full benefit of any reduction in our federal income tax expenses. The KCC has affirmed that mandate. Westar has already initiated the process for the KCC to assure that happens—and promptly—including taking the appropriate measures to assure that any interim tax savings are also held for the benefit of our customers (with interest) until new rates can be audited and put in place. KCP&L will soon initiate the same process.

Other Cost Savings Initiatives

We have already undertaken numerous initiatives to accomplish the important goal of moderating utility rate increases and ensuring that over the long term electricity rates in Kansas remain competitive regionally and nationally. These include such things as:

- Aggressively refinancing our balance sheet to reduce Westar's interest expenses by $29 million.[1]
- Tightening our belts by reducing our staffing costs:
    - Westar alone has reduced its staffing by $11 million annually, or 4%[2]. We have accomplished this without resorting to wholesale layoffs.
    - KCP&L has reduced its staffing by $17 million, or 7%, without layoffs.
- Westar has retired older, less efficient power plants resulting in saving Westar customers $13 million annually in operations and maintenance expenses. With the merger, the combined company plans to retire additional plants in the near future, yielding even more savings.[3]
- Developing a unique, creative solution—a constructed wetland—to treat water discharges from Jeffrey Energy Center to meet stringent environmental standards, but at a cost tens of millions of dollars lower than conventional solutions.
- KCP&L aggressively managed controllable non-fuel operations and maintenance spending (NFOM) to less than .7% a year between 2011-2015. This is less than half the rate of inflation during the same time period.
- Upgrading LaCygne Station to meet the latest environmental rules, and completing that work for nearly $75 million less than the Commission approved cost.[4]
- Rolling out smart meters that enable remote connection and disconnection, which reduces labor, vehicle costs and emissions.
- Smartly adding wind resources to cost-effectively produce the power our customers demand.
- KCP&L implemented a supply chain transformation project, aggressively managing materials costs and other supply chain costs to reduce spending by more than $93 million dollars.

The Merger

As important as the cumulative effect of these cost-reducing efforts is, such efforts are not enough. That is why we have relentlessly pursued, at tremendous cost and risk to our shareholders, *the single course of action most able to help contain the cost of electricity;* that is, the merger between our two neighboring Kansas electric companies. With the merger, and enabled *only by the merger*, we have committed to:

- Cutting our combined capital expenditures over the next five years by nearly $329 million from 2018 through 2022, compared to what our respective stand-alone plans require;[5]
- Offering our Kansas customers up-front, guaranteed bill credits of more than $30 million;[6]
- Additional bill credits of more than $45 million to go to Kansas customers ratably over the next four years;[7]
- Guaranteed inclusion of approximately $30 million of merger savings to benefit Kansas customers in 2018 rate cases.
- A general base rate moratorium for five years;[8]
- We have agreed that our *shareholders*, not customers, will shoulder the entire burden of the tens of millions of dollars in transaction costs necessary to bring this merger—and the many benefits it enables—to fruition.[9]

If the merger is approved in a constructive manner that allows us to complete the transaction, we estimate over a half billion dollars in net benefits realized in the first five years, with significant amounts guaranteed to Kansas customers over that time period followed by Kansas customer share of another $100 million plus annually, and indefinitely thereafter as growing merger savings are recognized in Kansas customers' rates.[10]

Importantly, every one of these benefits will be forfeited if this merger is imperiled.

As we have with other cost-saving initiatives, we have committed here too, to accomplish these things with no layoffs and while maintaining a strong Kansas corporate headquarters presence in downtown Topeka.

Indeed, these are the reasons we can confidently affirm that this proposed merger is the single course of action best able to help us achieve the important goal of moderating utility rate increases and ensuring that over the long term electricity rates in Kansas remain competitive regionally and nationally.

Rate Comparisons Should Be Balanced and Put in Proper Perspective

The timeframe used by the Kansas Industrial Consumers Group (KIC) to discuss Kansas electric rates and compare to inflation begins in 2007. This is a disingenuous comparison. In fact, 2007 is the first time that both KCP&L and Westar had rate increases in nearly two decades. To begin the analysis in 2007 ignores years and years of stable to declining rates. Beginning in 1992, when Westar was created in its last merger, Westar's rates have grown 6 percent less than inflation. Likewise, beginning in 1988, when the Wolf Creek Nuclear Station was brought online and into customer rates, KCP&L's rates have grown 15 percent less than inflation.

Figure 1
Inflation Has Outpaced Westar Electric Rates Since 1992

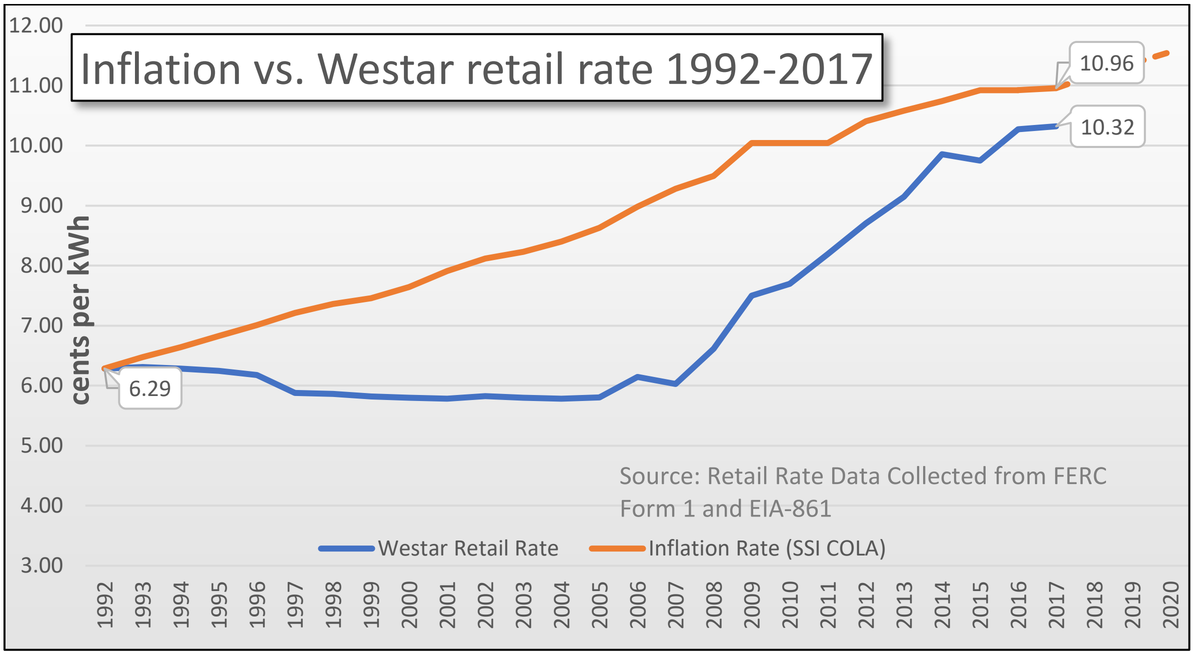
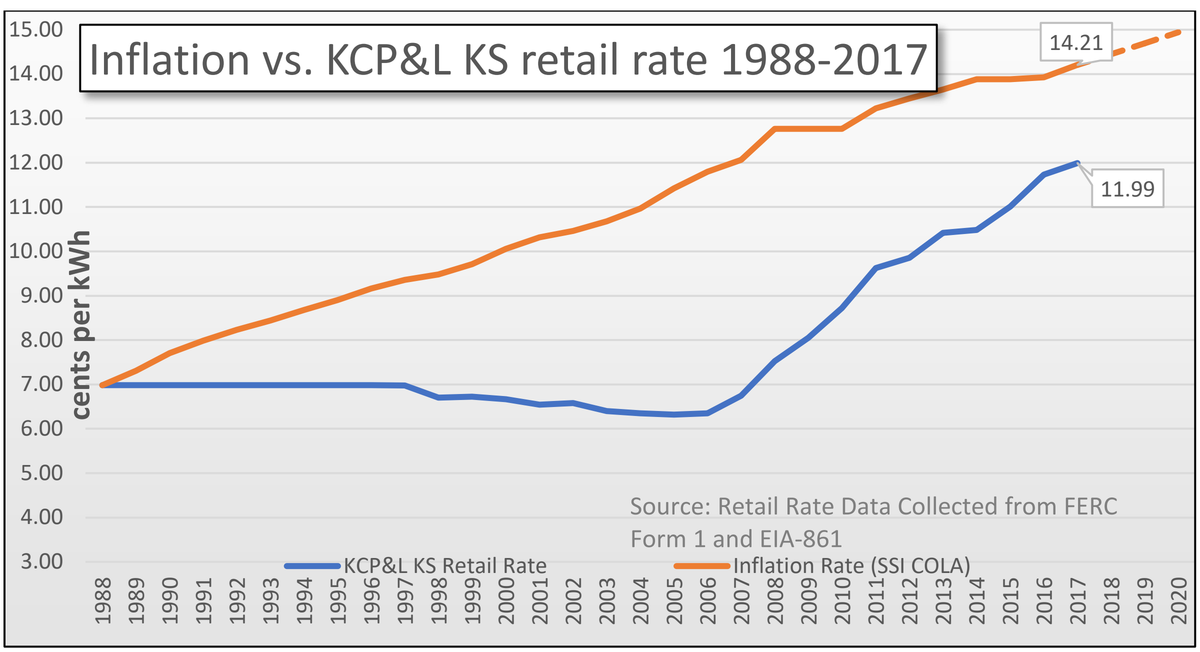


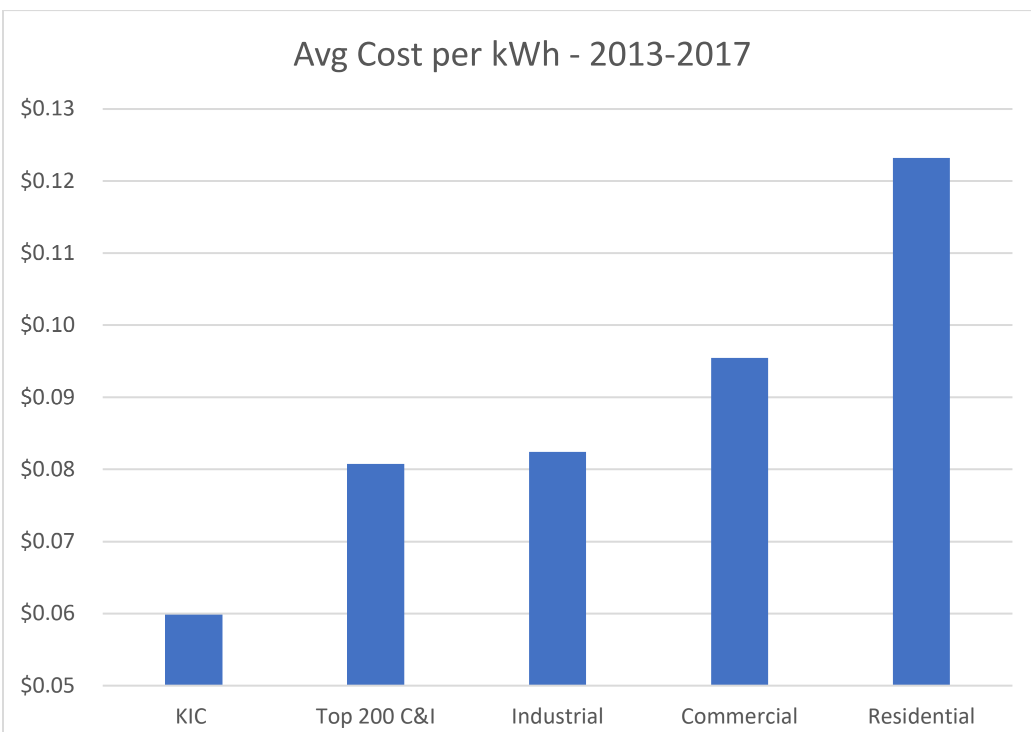
Figure 2
Inflation Has Outpaced KCP&L Electric Rates Since 1988



Additionally, starting the rate analysis in 2007 ignores the fact that both companies for the first time in two decades were in the beginning periods of major capital investment to meet environmental mandates, upgrade and modernize their transmission and distribution systems, build and retrofit large generating stations and diversify their generation portfolios. Starting the comparison of rates and inflation in 2007 "cherry-picks" the timeframe to make rate increases look the worst. KIC also ignores the value created by these investments in Kansas—thousands of jobs and billions of dollars of direct and indirect economic stimulus. Finally, KIC was a participant in virtually all rate proceedings during this time period and ultimately agreed to three out of four Westar rate increases through settlements. In addition, Mr. Zakoura was a signatory representing certain industrial customers in KCP&L's settlement agreement in its Comprehensive Energy Plan that was also during this time period. In many cases, they agreed to rate case settlements as both reasonable and in their customers' best interest. KIC was aware that KCP&L and Westar were making these investments; KIC was a participant in the process; and KIC received outcomes that allowed its members to remain competitive and vibrant in Kansas.

While we appreciate that every customer wishes to pay less for their energy, the rhetoric of such pleas needs to be balanced with facts. Kansas Industrial Consumers, comprised of a few very large industrial customers, presently enjoy the lowest electricity rates of customers on Westar's system, as noted below. In fact, KIC customers enjoy rates that are more than 25 percent below the next 200 commercial and industrial customers in Westar's service territory.

Figure 3
KIC Customers Enjoy Low Utility Rates



Moreover, these preferential low rates compare favorably to the industrial rates in neighboring states.

Electric rates are an important consideration for economic development. Affordable electricity is important, but not typically the most important concern for businesses wishing to locate or expand in Kansas. More often the concerns expressed by such businesses address reliability and, increasingly, the source of power, which speaks to the importance of our growing commitment to clean energy sources. In 2017, Westar's reliability was the best in our history, and KCP&L was named the most reliable electric utility in the Plains region of the United States by PA Consulting. This is an award that KCP&L has earned in eight of the last 10 years.

Through our commitments to cleaner energy, Kansas now is a leader in diverse and clean power, with emissions a fraction of what they were just a few years ago. Last year Westar produced emission-free energy equivalent to more than half the electricity used by the businesses, farms, ranches and homes we serve. KCP&L produced just under half of the electricity consumed by the customers we serve from emission-free sources.

KIC's claim that electric rates for industrial and commercial customers are not competitive and have hurt economic development in Kansas is simply not factually accurate. Our rates remain competitive and have not been an obstacle to economic development. Moreover, since 2010, KCP&L and Westar have worked with multiple large industrial and commercial companies who have located or expanded their operations in Kansas. This has resulted in nearly $4.4 billion of capital investment and thousands of jobs created in Kansas over that same time period. In addition, many KIC members have expanded their operations in Kansas since 2010.

Here are just a few companies that have located or committed to expand in Kansas: Cargill, Amazon, Mars, Spirit Aerosystems, Reser's Fine Foods, Berry Plastics, Morton Salt, Hormel Foods, Coca Cola, BNSF, Kubota, Unilever and Simmons Pet Food.

As noted above, our rates are regulated by the KCC and are set based on our actual costs. If the "balloon" is further squeezed in favor of a few customers who already enjoy the lowest rates, the result would be higher rates for every other customer we have the privilege to serve. We do not believe it would be good state policy to further favor a few at the expense of all others.

A Better Approach vs. Risking the Very Efforts Best Able to Contain Costs

We wholeheartedly share the important policy objective of assuring that Kansas continues to have modern, reliable electrical infrastructure that remains competitively priced. We are dedicated to that end. Cited above are many examples of efforts we have undertaken—at substantial risk and cost to our companies—to manage electricity costs. As mentioned, the single best course of action we can take, if the KCC is able to approve the merger on terms acceptable to our companies and our shareholders, is to merge our two companies, and thereby create efficiencies unattainable by either of our companies individually.

Our purpose in sharing these thoughts is to express a concern, and it is this: If the rhetoric around electric rates is not appropriately balanced with facts and placed in proper perspective, we fear, if uncontained, may imperil the single best and most significant opportunity Kansas has available to stabilize utility rates. Almost all the states that border Kansas are served by large multi-state investor-owned electric utilities. Over the last decade, these companies have grown and combined through mergers, like the one proposed between Westar and KCP&L. As a result, electric rates in neighboring states have benefited from having larger more efficient utilities that are able to drive operating costs down through size and scale. We now have that same opportunity in Kansas.

SCR 1612 is well-intentioned and focused on the right goal—long-term competitive electric rates. Both Westar and KCP&L share that goal. However, SCR 1612 is not needed to encourage action or empower the KCC, and its staff, who have done an admirable job using the regulatory framework in Kansas to balance the need for investment in the electrical system while representing customers across Kansas. We thank the Committee for allowing us to present our perspective today.

Citations

[1] McGrath Direct, KCC Docket 18-WSEE-328-RTS, page 5, line 18 through page 6, line 12.
[2] Kongs Direct, KCC Docket 18-WSEE-328-RTS, page 19, lines 5-16.
[3] Ives Direct, KCC Docket 18-KCPE-095-MER, page 6, line 21 through page 7, line 3.
[4] Mayworm Direct, KCC Docket 17-WSEE-147-RTS, page 3, lines 21-22.
[5] Somma Direct, KCC Docket 18-KCPE-095-MER, page 19, lines 9-10.
[6] Ives Direct, KCC Docket 18-KCPE-095-MER, page 9, line 2 through page 10, line 6.
[7] Ives Rebuttal, KCC Docket 18-KCPE-095-MER, page 14, lines 1-8.
[8] See discussion of constructive considerations regarding a rate moratorium, Darrin Ives, Rebuttal, KCC Docket 18-KCPE-095-MER, page 21, lines 6-18.
[9] Ives Direct, KCC Docket 18-KCPE-095-MER, page 11, line 9 through page 12, line 6.
[10] Busser Direct, KCC Docket 18-KCPE-095-MER, page 4, lines 3-7.