



Testimony of KCP&L and Westar Energy Opposed to SB 396

Chuck Caisley, Vice-President, Marketing and Public Affairs, KCP&L
Before the Senate Utilities Committee
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Chairman Olson and members of the committee, KCP&L and Westar Energy appreciate the opportunity to appear before you today regarding SB396. On January 18 KCP&L announced its intention to file rate update cases with the Kansas Corporation Commission (KCC) and the Missouri Public Service Commission (MPSC) to pass approximately \$100 million in annual tax savings to customers, resulting from federal tax cost reductions. The Tax Cuts and Jobs Act, which decreased the corporate tax rate from 35 percent to 21 percent, was signed into law on Dec. 22, 2017, and became effective on Jan. 1, 2018. KCP&L is committed to passing 100 percent of the benefit from this tax cut, with interest, to customers.

On January 18, Westar Energy also announced the same intention, and subsequently on February 1, filed a request with the KCC to update its prices to include the new lower federal tax rate, which will save Westar customers about \$74 million per year. They were the first utility in Kansas to request this process begin at the KCC, and KCP&L plans to begin this process at the KCC this spring.

There is precedent for this process in Kansas when utilities responded to the 1986 Tax Reform Act and underwent a similar review that captured and tracked the tax law change-related savings of each utility. This ensured that customers, not the utilities, received the full benefit of the tax reduction. This in-depth review of rates at the KCC can take up to eight months. Therefore, it's important to address how customers will receive the full benefit of the reduced tax rate. At the conclusion of the KCC's review of prices, customer utility bills will fully reflect the tax rate reduction going forward as well as from the date it started, with interest.

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Because the process of adjusting prices to reflect these changes is already in process at the Commission, and because the KCC has prior experience in this area from similar situations in years' past, we believe Senate Bill 396 is unnecessary legislation. Creating a law for a situation that happens infrequently and for a process that already compensates utility customers fairly, seems unwarranted.

If the Committee decides moving forward with 396 is the best course, despite our opposition, we would suggest any legislation contemplate the possibility that income tax rates may increase or decrease in the future. Any legislation should reflect the utility's ability to charge interest and quickly adjust rates related to future tax rate increases. We would further suggest that the interest rate paid, or received, by utilities be equivalent to the customer deposit interest rate, which is the typical practice in our industry and reflects interest costs consistent with the then current interest rate environment.

Thank you for the opportunity to talk today about how this process will work, and I assure you the utilities look forward to working with the KCC and all parties involved to get these benefits to customers as soon as possible.