KEC
KANSAS ELECTRIC COOPERATIVES, INC.
A Touchstone Energy® Cooperative
P.O. Box 4267, Topeka, KS 66604-0267 • 7332 SW 21st Street, Topeka, KS 66615 • 785-478-4554 • Fax: 785-478-4852 • www.kec.coop

**Neutral Conferee – Written Only**

**SB 437 – Authorizing the Issuance of K-EBRA Bonds (Securitization)**

**Senate Committee on Utilities**
**March 12, 2020**

**Presented by Leslie Kaufman, V.P. of Government Relations & Legal Counsel**
**Kansas Electric Cooperatives, Inc.**
**and also on behalf of Kansas Municipal Utilities**

Chairman Masterson, Vice Chairman Petersen, Ranking Member Francisco and members of the Senate Committee on Utilities, thank you for the opportunity to submit comments on behalf of Kansas Electric Cooperatives, Inc. (KEC) and Kansas Municipal Utilities (KMU) and our respective members regarding securitization. I am Leslie Kaufman and I serve as the V.P. of Government Relations & Legal Counsel for KEC.

KEC is the Kansas statewide service organization for 27 electric distribution cooperatives and three generation and transmission cooperatives. Formed on August 18, 1941, and headquartered in Topeka, KEC represents the interests of and provides needed services and programs to the electric co-ops that serve Kansans. Our major programming areas include advocacy, education, communications and safety/loss control.

Kansas Municipal Utilities is the statewide association representing Kansas cities and other public or not-for-profit agencies involved in the ownership and operation of municipal utilities. Formed in 1928, KMU provides assistance and information to members with regard to legislative and regulatory issues, training and educational programs, and numerous other services towards the advancement of municipal utilities and to achieve maximum benefits for the customer-owners served by our utilities.

Currently, three bills regarding securitization and the implementation of the Kansas energy bill reduction assistance (K-EBRA) program have been introduced in the Kansas legislature during this biennium. Last year's SB 198 varies slightly from two measures introduced this session, HB 2691 and its companion bill SB 437. Our associations are not taking a specific position on the concept of securitization in general or as presented in the three bills noted above. We do have several questions and/or concerns with the proposals and with the overall concept. For the purposes of this discussion, any comments regarding specific bill references will relate to SB 437.

For the past two sessions, there has been a significant amount of media and legislative attention on Kansas electric rates. Proponents have offered securitization as an option to try and help reduce electric rates in certain circumstance. Under their proposals, securitization is an option for utilities and not forced on all utilities. This is a key concept and we believe any plan to advance securitization must be voluntary as we do not believe securitization will guarantee an overall rate reduction in all cases.

Securitization, in its simplest terms, is a re-amortization mechanism. Through the process, even if rates are reduced in the short-term, securitization extends the life of a debt obligation. This increases the overall total cost of financing, thus increasing the overall costs passed on to ratepayers.

Historically, utilities and their regulators have factored cost-causation into rates. That means there is a tie between those benefiting from a service, upgrade, or investment and the burden of paying for those services and investments. Securitization throws that model out of balance by shifting costs from current ratepayers, on whose behalf the investment was made, onto future generations of customers. Even the recent electric rate study released by London Economics International (LEI), noted the intergenerational concerns with securitization.

The bill's purpose is articulated in Sect. 1(b)(1)-(4): (1) lower rates by refinancing certain electric generating facilities, (2) provide financial assistance to displaced workers from the retired generating plants, (3) provide the capital for replacement generation, and (4) provide funds to be considered by the KCC and independent credit rating agencies. With all of the areas the bond proceeds are intended to support, will there ever be a scenario that will result in lower rates?

Those purposes raise important public policy questions for the legislature to consider when determining the nature of activities that can be funded through ratepayer-backed bond proceeds. This is especially true when an overarching goal of securitization is reducing customer rates.

Sect. 1(b)(3) indicates the new replacement facilities are to be cost-effective and needed to reliably serve electric utility customers. That includes least-cost electric generation facilities, storage, and other clean supply-side and demand-side resources. The bill does not define "clean." Is that renewable only or non-greenhouse gas emitting? What about high-efficiency, pulverized coal? If least-cost facilities are not clean, how is that reconciled?

Will the authority to purchase or build new generation facilities result in the need for new transmission facilities? Sect. 15(a)(5) states that the bond proceeds may be used to invest in network modernization, <u>not including new transmission facilities</u> [emphasis. added]. Hence, the need for new transmission is not part of the calculus of whether the retirement of a generating plant is cost effective when evaluating purchasing or building new generation. But we note transmission upgrades cannot be divorced from the overall cost calculation. What is the additional cost of transmission upgrades needed as a result of the new generation? The answer to this question is vitally important given transmission build out is one of the three key cost-drivers, along with environmental retrofits and flat/declining loads, that have led to Kansas' current electric rates.

Who determines appropriate "retraining" for displaced electric generation facilities workers? Sect. 2(v)(1) references apprenticeship programs and skilled worker training, but what about professional employees?

It appears SB 437 creates a priority security interest in, or transfer of, K-EBRA property. Is this consistent with bankruptcy, securities, property, or other law? If not, this public policy decision could have significant impacts.

Obviously, there are many questions the legislature should ensure are answered before implementing a statutory securitization structure. We appreciate the dialogue on this important concept and welcome the opportunity to continue participating in the discussion on behalf of our respective members. Thank you.