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Before the House Committee on Energy, Utilities, and Telecommunications

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In-Person Proponent Testimony On House Bill 2225

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On Behalf of The Staff of the Kansas Corporation Commission

Chair Delperdang, Vice Chair Turner, Ranking Minority Member Ohaebosim, and members of the Committee, thank you for the opportunity to provide testimony to your Committee today on behalf of the Staff of the Kansas Corporation Commission (Commission).

Executive Summary

The Staff of the KCC is proposing a legislative change to K.S.A. 66-1237, otherwise known as the Transmission Delivery Charge (TDC) statute. We propose to narrow the definition of transmission projects that can be included in the TDC charge to exclude local transmission projects that are planned entirely by the electric utility, outside of Regional Transmission Organization (RTO) planning processes. This change would not affect the utility's ability to include in the TDC transmission projects which are planned or directed by an RTO or the Federal Energy Regulatory Commission (FERC). Nor will it affect cost recovery for costs which are otherwise outside the control of the utility such as FERC or Southwest Power Pool (SPP) administrative costs.

The result would level the playing field for ratemaking between local transmission, generation, and distribution investments as well as enhance KCC oversight and authority over approximately 40% of Evergy's capital expenditures. Because we contend that these capital expenditures should receive a KCC-authorized return, which is historically less than the FERC-authorized return, this change would also improve the State's regional rate competiveness. We calculate an approximately $9 million (2.85%) reduction in the Evergy Kansas Central[1] (EKC) TDC charge as a result of this change. This equates to approximately $.47/month on an average residential customer bill. Evergy Kansas Metro's[2] TDC reduction would be approximately $1.6 million (3.8%), roughly $.30/month for an average residential customer. Our recommended legislation would only affect EKC and EKM, as we propose to exclude any utility with less than 20,000 customers from the impact of this change. We propose to exclude smaller utilities because the cost savings of this approach would not outweigh the additional rate case costs necessary to effectuate the change.

[1] Formerly Westar.
[2] Formerly KCP&L.

Background

Local transmission projects are completely within the control of the utility, similar to distribution or generation investments that the utility undertakes in order to meet its legal requirements to provide efficient and sufficient utility service at just and reasonable rates. Accordingly, we contend that it is unnecessary to provide FERC's incentive ratemaking treatment to these local transmission projects. We seek to level the playing field between local transmission, distribution, and generation investments—regulating them all under more traditional ratemaking practices before the KCC. This would eliminate the preferred investment status that local transmission investment currently enjoys, by virtue of the FERC incentive ratemaking that it receives through the TDC.

In its current form, the TDC statute allows EKC and EKM to receive incentive ratemaking treatment, bypassing meaningful KCC regulatory review, for approximately 40% of annual capital expenditures. For the five years 2022 through 2026, transmission capital expenditures are projected at $2.04 billion out of EKC's $5.25 billion capital expenditure budget. The TDC Statute allows all of this investment to be passed through to Kansas retail customers automatically, within 30 business days of Evergy filing a "report" with the Commission. All charges are to be "conclusively presumed prudent," meaning that the KCC's review of these costs is limited to a mathematical audit of the accuracy of the filing, and to ensure that the charges have been previously included in the Transmission Formula Rate (TFR) filed at FERC. Additionally, these investments experience no regulatory lag due to FERC's use of a projected test year formula rate, and they receive a Return on Equity (ROE) from FERC that is much higher than what is currently authorized by the KCC. Currently EKC earns a 10.3% ROE on its transmission investments while EKM earns an 11.1% ROE. The KCC authorized ROE is currently 9.3% for both utilities.

The TDC statute was codified into Kansas law in 2007, a time in which transmission investment in Kansas and nationally was lagging behind other types of utility infrastructure investment. This incentive ratemaking treatment had its intended effect, with EKC's Total Retail Transmission Cost increasing nearly threefold, from $110.55 million in 2010 to $310.01 million in 2022, as shown in the table below:

EKC Total Retail Transmission Cost			Docket No.
2022	$	310,014,297	22-EKCE-407-TAR
2021	$	289,613,738	21-EKCE-308-TAR
2020	$	251,681,294	20-EKCE-360-TAR
2019	$	248,202,497	19-WSEE-327-TAR
2018	$	255,900,262	18-WSEE-355-TAR
2017	$	244,621,574	17-WSEE-377-TAR
2016	$	231,948,024	16-WSEE-375-TAR
2015	$	224,861,730	15-WSEE-366-TAR
2014	$	217,637,518	14-WSEE-393-TAR
2013	$	174,056,297	13-WSEE-507-TAR
2012	$	164,628,391	12-WSEE-651-TAR
2011	$	127,903,900	11-WSEE-599-TAR
2010	$	110,551,694	10-WSEE-507-TAR
12-Year CAGR		8.97%	

We contend that now is the time to scale back this incentive ratemaking treatment, in order to level the playing field between local transmission, generation, and distribution investments. Importantly, our recommended legislation preserves the current TDC ratemaking treatment for any transmission investment which is outside of the control of the utility, that is, transmission investment which is planned or directed by an RTO or FERC. We are trying to close a loophole that allows Evergy to determine what, when, and how much local transmission it wants to build, and then automatically pass these costs on to Kansas consumers, along with a premium FERC return, without KCC approval.

Additional Information

While EKC implemented a TDC in 2008, EKM did not implement a TDC in Kansas until 2015. Prior to that, EKM recovered all of its transmission investments in Kansas through traditional ratemaking practices (a rate case). Additionally, Evergy does not have the equivalent of a TDC statute in Missouri, so Evergy's Missouri customers do not pay FERC's premium ROE for Evergy's transmission investments in Missouri. Thus, this change to the TDC statute in Kansas will improve the current rate differential between Kansas and Missouri.

Thank you for the opportunity to offer our perspective on the proposed bill and the opportunity to appear before your committee.