Oral Testimony in <u>Opposition</u> to HB 2225
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For the House Committee on Energy, Utilities and Telecommunications

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Thank you, Mr. Chairman and members of the committee for the opportunity to comment on HB 2225. Evergy opposes this legislation as currently drafted as we believe it goes too far and is regressive regulatory policy in its current form. However, we hope to work with stakeholders to craft a bill that achieves the sponsor's purpose of a more transparent and efficient adjustment clause while preserving the ability to unlock the benefits intended by the transmission delivery charge (TDC).

First, let's discuss why the TDC was implemented and what it is. It is important to note that the TDC legislation was adopted to address concerns in Kansas about the lack of new investment in transmission as well as the reliability of the transmission system. Those investments have benefited the state of Kansas by enabling the development of a major new multi-billion-dollar industry in wind generation and to begin the refresh of the aging backbone of Kansas' electric grid, some of which has been in place and serving Kansans since World War II. More directly, customers throughout Kansas have benefited from not only better reliability, but investments that have made it possible for large businesses, universities and residential customers to benefit from Kansas wind. A reliable transmission system can unlock long-term fuel price stability, has helped our customers meet their goals and helped attract new economic development projects to Kansas.

The charge encompasses the changes from the Transmission Formula Rate (TFR), which is the mechanism FERC (Federal Energy Regulatory Commission) uses to review and approve Evergy's investment prudence when rates are updated annually. The TDC is the Kansas mechanism we use to pass along savings or costs to retail customers on an annual basis, consistent with the FERC TFR process.

This type of mechanism is not unique to Kansas. Although other states use different acronyms for their mechanisms, every state that borders Kansas has mechanisms that support transmission and/or distribution investments. Arkansas, Colorado, Illinois, Minnesota, South Dakota, North Dakota and Texas have similar types of transmission adjustments that are made annually and outside of a rate case. Such mechanisms recognize the substantial financial implication to utilities of transmission investments due to the scale of the projects. These mechanisms are utilized to appropriately balance the financial health of their incumbent utility and their states' customers while unlocking the benefits of supporting a reliable and robust transmission system in their state. In the states in the same region as Kansas, more than half of the utilities in each state, and as much as 90% of the utilities in those states, utilize adjustment mechanisms similar to the TDC for transmission and distribution investments.

As for the legislation, there are several reasons why HB 2225, as currently crafted, negatively impacts both electric utility customers and electric utilities. Today, the TDC mechanism allows Evergy to reflect costs in real time for customers. Repealing this mechanism will prevent Evergy from immediately passing on any savings/decreases from the charge until the next rate case. In fact, since 2018 in the last 10 TFR/TDC adjustments, 6 adjustments have resulted in DECREASED rates which were quickly reflected in customers' bills. If there had not been a TDC mechanism, at a time when Evergy is in a 5-year base rate case moratorium, customers would not have benefited from those savings for years and would have had to wait until the end of this year for their rates to be impacted.

As currently drafted, this bill will result in MORE rate cases. In order to make up for the regulatory lag (negative financial impact) created by this legislation and to recover transmission investments in a timely fashion, Evergy will be forced to file rate cases on an annual basis. This will have several negative impacts to customers:

- The financial cost of these additional rate case proceedings will be passed on to Kansas customers.
- When Evergy is not in a rate case, it has a built-in incentive to keep costs as low as possible. Outside of a rate case, cost increases cannot be passed onto customers. If the company is forced to have rate cases on an annual basis, the company will put rising costs into rates on an annual basis—raising costs for customers higher than they would have otherwise been.
- Importantly, as enacted today, the TDC results in more frequent but more gradual changes in customer bills, which is another long-standing principle of utility ratemaking. Smoothing changes in customer bills through Kansas' currently approved TDC and fuel riders, two of the largest components of utility costs, is beneficial to Kansans by providing for more manageable bill changes than significant step changes that can occur with less frequent but generally more impactful rate case proceedings.
- Finally, and perhaps most importantly, Kansas is already viewed as a regulatory environment with more risk and below average returns for people and companies that invest in utility infrastructure (currently 9th from the bottom across the country). By removing the TDC, investors will wait longer to recover their investment, see a lower return for that investment, and have

more overall risk if they invest in Kansas relative to other states surrounding Kansas. This will immediately raise the cost of capital to Evergy for making any utility investment in Kansas. And, as a result, if our cost of capital increases, it will have a material impact on rates for customers—causing them to be higher, not lower. As such, this bill will not decrease rates in Kansas. Rather, the ultimate impact of this proposal will result in more rate cases, less cost savings and higher bills in the long run.

In addition, it is important to realize that the costs associated with enabling the transmission activity in the State of Kansas unlocks the ability for Kansas customers to take advantage of LOWER fuel costs, which are passed on to customers through the similar annually updated fuel rider. This legislation detaches the transmission from associated fuel cost changes on customer bills. Those transmission lines carry low-cost wind and solar power to homes. Without them, customers would consume more higher cost generation. This bill would create a disincentive for Evergy to build future transmission.

At its core, transmission is really about reliability. Reliability is critical for manufacturers -- even a momentary blip can cost millions of dollars. We are making great strides on reliability in both our rural areas and specifically in Wichita. Nearly 80% percent of Evergy's planned Kansas transmission investment is in targeted local investments, designed to improve and increase reliability and resiliency across Kansas. And 98% of these local reliability investments are on transmission lines that are 40-plus years old—some dating back as far as World War II. We have presented several times in KCC open work studies on the risks of not refreshing our aging transmission assets and the importance of continuing our work on this refresh. This bill as written is regressive in providing the support necessary to continue the refresh at the pace required for maintaining reliability for Kansans.

After 20 years, Evergy supports examining the TDC adjustment mechanism to ensure that it is continuing to work as intended and remains beneficial for Kansas and for Evergy's customers. We understand the desire for the Commission to have more local oversight on transmission projects and think that is proper and fitting for the state regulator. We are willing to work with the Commission and other stakeholders to find a compromise path forward.

As currently drafted, however, we believe HB 2225 goes too far and we do not support it as currently drafted. Evergy hopes to work with stakeholders to craft a bill that achieves the proponents' purpose of a more transparent and efficient adjustment clause while preserving the benefits of the TDC for Kansas customers.