

SENATE COMMITTEE ON COMMERCE
Written Only Testimony in Opposition to SCR 1612 – Calling on the KCC To Take Actions to
Reduce Electric Rates.

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Kansas Electric Cooperatives, Inc. appreciates the opportunity to submit testimony in opposition to SCR 1612. The 28 distribution and 3 generation and transmission cooperatives in Kansas are member-owned and controlled. We are acutely aware of the need for cost savings and take affirmative actions to keep rates as low as possible while covering the cost of providing reliable electric services. In regard to rates, all of the distribution cooperatives are self-regulated by member-elected boards. Rates are based on the cost-of-service.

The electric cooperatives share your concern with rising rates that are primarily attributable to the aggressive construction of transmission. Many of our members are experiencing those increases because they have power supply and transmission contracts with other utilities. Because our members provide service at-cost, those increases are felt by cooperative members.

While our self-regulated cooperatives are not under rate jurisdiction of the Kansas Corporation Commission (Commission or KCC), the language in SCR 1612 is crafted in a manner that raises several concerns for us. The wording, in places, suggests directives to the KCC that may extend beyond rate jurisdiction into other jurisdictional areas that may cover cooperatives. The resolution infers KCC jurisdiction the current law does not provide. We are apprehensive about the actual wording of SCR 1612 as well as the overall tenor of the measure. As such, we cannot support the current resolution.

The language of the bill makes broad statements as to the cost of power in Kansas. While we recognize the need to be competitive, these generalized statements cause us concern. The over-riding criteria when our cooperatives' set rates is covering our costs. As not-for-profit electric cooperatives, our members' rates are established based on the costs of providing reliable electric service with any excess revenues being returned to the consumer-member.

Language in the bill such as “captive” and “monopolistic” ignores the sound, long-standing public policy of this state in regards to certified territories. Previous legislators recognized the wisdom in terms of cost-effectiveness for the citizens of Kansas to avoid duplication of electric services. They understood the difficulties that homeowners, businesses, industry and agriculture would face if multiple sets of power lines criss-crossed the state willy-nilly. They understood that efficiencies for the consumer could not be fully achieved unless a utility has a reasonable expectation of long-term load. They knew the most effective way to advance and protect these critical public policy interest was through creation of the certified territory system currently in place.

The legislature also recognized that to complete the public policy circle, they could not grant a blanket monopoly to utilities, free of regulation. The opportunity to serve a designated territory is only granted along with an accompanying obligation to actually provide the service in that area. Retail electric

service providers are either rate regulated through the Commission or self-regulated by a member-elected board or citizen-elected municipal governing body. In whichever manner, the rates are currently based on the total cost involved with providing reliable electric service. The certified territory system ensures that all customers in that geographic area receive service, balancing high and low cost-of-service customers and ensuring lines are extended even to the small load 15 miles outside of town.

We respectfully caution the legislature against using the phrase “any and all” when referring to lawful actions the KCC should undertake to reduce rates. There is no question all actions of the Commission must be legal to begin with. Nevertheless, utility regulation is complex. The issues involved need to be considered in a much broader light than simple legality. Even if an action is legal, it must still be appropriate to the situation and functionally achievable. That directive also ignores the statutory obligations the Commission must follow when regulating utilities. As such, it sends a mixed message to the Commission, KCC staff and to consumers across the state.

We also question how the KCC will determine “regionally competitive rates?” First of all, what constitutes our region? Is that Kansas plus our four surrounding states? Is that region the Southwest Power Pool? Is it some other grouping? Is the “competitive rate” an average of all the rates in that region? Is it the median of the various rates? Will there be a range in which the rate falls that qualifies as “competitive?”

What if the “regionally competitive rate” is below the actual cost of providing reliable service? The utility cannot arbitrarily lower rates (to match neighboring states’ costs structures) without harming the financial condition of the utility. Once the Commission identifies such a rate, if a utility’s actual cost of providing service is higher than the rate, will utilities be forced to cut necessary operations to reduce costs to meet the standardized rate? Do they forgo replacing needed infrastructure? Do they reduce the number of line workers? How would those changes affect service and reliability? If either of those are diminished, won’t that negatively affect consumers?

At first blush, SCR 1612 may seem like a pro-consumer statement but once one begins to look more closely at what this language is asking for, it really runs counter to the solid, long-standing public policy of the state. That policy ensures Kansas electric customers have reliable service, at the flick-of-a-switch, at a rate based on the cost-of-service. That policy has established, fact-based rules for determining cost-based electric rates. That policy is still good for Kansas consumers, whether residential or businesses of any size. That public policy should not be undermined. As such, we oppose SCR 1612.

Thank you for the opportunity to share our concerns. If you have questions regarding these comments or other electric cooperative issues, please feel free to contact us.

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