KEPCo

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Senate Commerce Committee
KEPCo Written Only Neutral Testimony of SCR 1612

Madam Chair and members of the committee, I am Phil Wages, Director of Member Services, Government Affairs, and Business Development for Kansas Electric Power Cooperative, Inc (KEPCo).

KEPCo is a not-for-profit generation and transmission electric cooperative utility serving the wholesale energy requirements of nineteen-member not-for-profit rural electric cooperatives that serve the rural areas of the eastern two-thirds of Kansas.

KEPCo is supportive of the need to control escalating electric rates in Kansas and the general concepts implied in SCR 1612, but KEPCo is concerned with the specific language of the Resolution. KEPCo strongly supports the need for enhanced regulation of for-profit electric utility companies in Kansas, in order to control escalating costs attributed to capital spending and recovery. The language of the Resolution should better reflect a focus on the causation of the increasing costs linked to investor-owned utility spending. If the Resolution captured the causation and control mechanisms discussed below, KEPCo would strongly support the Resolution.

KEPCo is a member-owned, not-for-profit supplier of electricity to our member cooperatives, who, in turn, supply electricity to the rural areas of Kansas on a cost basis. As cooperatives, we have no incentive other than to provide reliable power to our members at the most economical rates. KEPCo believes there is a solution to the rate concerns this resolution is intending to address, but KEPCo does not believe the wording of this Resolution addresses the heart of the problem.

Retail electricity consumers in all classes, residential, commercial, and industrial, have experienced escalating electricity costs over the last decade, and there appears to be no end in sight. This is the case as well for wholesale customers, like electric cooperatives and municipal utilities. There is an insatiable desire among the for-profit utilities to invest capital in utility infrastructure, even as the utility rate base increases at staggering levels and retail and wholesale customers suffer. We all agree that the electricity infrastructure must be in place to provide sufficient and efficient service while meeting all required local, state, and federal laws, but KEPCo does not want a system that allows infrastructure growth simply for the sake of growing stockholder profits. There is a growing electric rate fatigue in Kansas driven primarily by capital expenditures for generation projects and transmission construction. The term “rate fatigue” is important to understand. It simply means customers, large and small, have had enough. They are frustrated with the constant increases in electricity prices.

As a wholesale customer of the investor-owned utilities and a wholesale supplier to nineteen-member distribution cooperatives in Kansas, KEPCo experiences first-hand the cost increases driven by generation and transmission capital projects. Expenditures necessary for maintaining sufficient and efficient electric service are important. Gold-plating the system and retiring assets simply to get ready to build the next round of new steel in the ground (and additional rate base and earnings) is not acceptable.

This Resolution identifies the problems of rising rates that are not regionally competitive and negatively impact economic competitiveness. But, the Resolution's proposed solution is too general; it wields an axe to attack a problem that needs a well-controlled, but effective scalpel.

The answer to the growing rate fatigue in Kansas is simple…get a handle on the amount of capital being spent by the for-profit utilities in the State. Every dollar of capital spent goes into the rate base, and as the rate base gets larger, the amount of capital spending needed to continue feeding the ever-increasing rate base, and hence to grow stockholder value and profits increases. The capital spending needed to continue to produce out-sized profit growth for utilities is exponential. Each year the capital required to keep growing the rate base is larger than the year before!

So, who chooses which capital expenditures to make? Is there a robust planning and bidding process to ensure that the profit-driven companies are making good, responsible choices for their captive retail and wholesale customers?

In Kansas, we need a mandatory, robust, and transparent integrated resource planning process. Each investor-owned utility in Kansas should be required to periodically file an integrated resource plan that demonstrates the utility has performed an exhaustive analysis of the anticipated loads, generation resources, and delivery infrastructure to serve its retail and wholesale customers. The plan should then be scrutinized and approved or dis-approved after a thorough, transparent process that involves stakeholders. This process is non-existent in Kansas, but it is present in the majority of states around the country.

Without a robust integrated resource planning process, the investor-owned utilities make decisions about retiring and adding resources in a corporate vacuum and then simply demand cost recovery in the regulatory arena for new assets or even for retired assets that were not fully depreciated before the IOU unilaterally decided to retire them. Most often, the capital has been spent, the old plant is gone, the new projects are complete, and the state or federal regulator has little choice other than to approve the cost recovery of projects that are never fully and transparently vetted through a public process. Remember, the investor-owned utilities are supposed to be "public utilities." They exist for the public benefit; they are granted regulated monopoly status as electricity providers for the public good. Yet, the public, even its representatives and regulators, have virtually no input into the large capital expenditures that must be paid for decades.

The IOUs should be required to acquire new generating capacity through purchased-power contracts with third party independent power producers instead of self-building, unless an IOU can demonstrate that building and owning a generation project is demonstrably economically superior to buying from an independent producer. The wholesale power and transmission paradigm has changed over the last two decades. There is no longer a need for the retail service provider to build its own generation. There is a strong, perverse financial incentive to “turn over” old assets and build new steel simply for the benefit of increasing rate base and increasing profits. The requirement for IOUs to purchase generating capacity instead of owning it removes this perverse incentive.

Transmission projects (34 kV and higher) not mandated by the Southwest Power Pool should be vetted through a Kansas Corporation Commission public process to ensure that projects are necessary, reasonable, and prudent in order to supply sufficient and efficient electricity service. Today, utilities justify transmission capital projects based on their own internal planning guidelines with very little input from transmission customers and virtually no input from state regulators. The project capital costs are then rolled into their Southwest Power Pool tariff rates to be passed on to retail and wholesale customers. The KCC has no oversight over these capital projects. Rather, the KCC simply must stand by while the rates go into effect for retail and wholesale customers. There is without a doubt a regulatory gap between transmission regulated by the KCC and those regulated by the Federal Energy Regulatory Commission. This regulatory gap gives IOUs another perverse incentive to spend capital to grow transmission rate base and earnings without due process for retail and wholesale customers.

The legislature should mandate that the KCC institute integrated resource planning, generation supply procurement rules, and transmission project approval for investor-owned utilities to begin to get a handle on the increasing cost of electricity in Kansas. Every year that goes by, the IOUs’ rate bases increase, and every year the amount of capital needed increases as well. Now is the time to get a handle on the processes so that we can get a handle on the costs.