




SUNFLOWER ELECTRIC POWER CORPORATION

A Touchstone Energy® Cooperative 

... energy done right

Senate Utilities Committee
Written Testimony in Opposition to SB209
Clare Gustin, VP Member Services & External Affairs
March 15, 2017

Members of the committee:

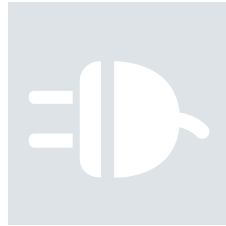
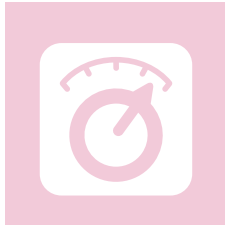
Sunflower Electric Power Corporation and Mid-Kansas Electric Company, LLC, are testifying in opposition to SB209. SB209 is a solution in search of a problem. Sunflower/Mid-Kansas believe utilities provide adequate transparency for customers and appreciate the investments our Members have made in new technologies to provide detailed information to their members on their retail bills. These investments were made to serve the real needs of customers, and decisions regarding the investments were made by representatives of the customers themselves. We believe it is unnecessary for the legislature to enact a law imposing additional or redundant requirements.

The legislature should also be mindful of the true intent of this bill. As has been pointed out in the fiscal note and through public statements of the proponents, SB209 is viewed as the first step to retail wheeling for Kansas. SB183, the companion bill referenced in the fiscal note, directs the Kansas Corporation Commission to adopt rules for retail choice by July 2018.

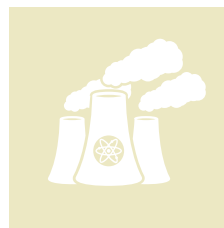
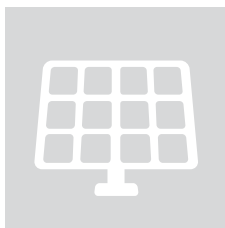
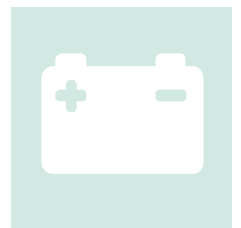
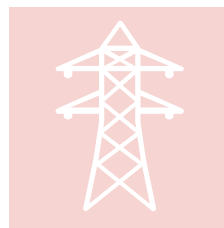
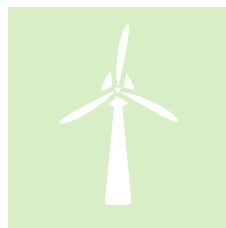
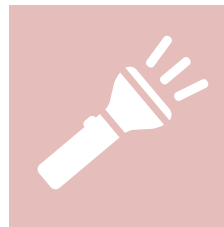
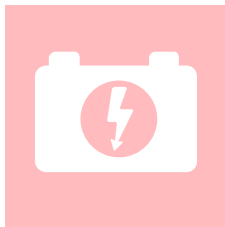
Retail electric choice would represent transformational change in the electric industry in Kansas. It should not be pursued without detailed study and consideration of the goals to be accomplished. That discernment is not possible in the context of one or two brief legislative hearings or even one legislative session. Kansas previously studied retail electric competition, including many months of study by a task force specifically formed for that purpose.

There are many issues with which the Legislature and KCC must wrestle before the rules are adopted that disrupt the Kansas electric utility system. One of the complex issues for electric generating utilities is how the state pays for the stranded utility assets in implementing retail competition. Power plants are constructed with the expectation they will operate over a specific life. Solid fuel plants (nuclear, coal or natural gas) may have a 40-60-year life expectancy. The financing for those assets was provided based on the promise that the guaranteed customer base was available to provide the revenue to make the repayments. You've just heard reports from Westar, Sunflower, and KCBPU about the additional investments that have been made to comply with environmental and other regulatory issues, investments that were made with the expectation the full customer base would provide revenue for repayment. When the revenue to make the payment is reduced, the assets are considered "stranded" without the ability to make the full repayment to the banker or investor.

Retail Electric Rates in Deregulated and Regulated States: 2015 Update



Published April 2016



APPA American
Public Power
Association

2451 Crystal Dr.
Arlington, VA 22202
202.467.2900

www.publicpower.org

Retail Electric Rates in Deregulated and Regulated States: 2015 Update

The U.S. Department of Energy, Energy Information Administration (EIA) data show that between 1997 and 2015, increases in retail electric prices were higher in states with deregulated electric markets than in regulated states. Moreover, though the rate disparity had narrowed somewhat in the later part of the previous decade, the rate differential has begun to increase again over the past few years.

The deregulated category includes states with retail choice programs, and whose rates are strongly influenced by wholesale power prices in markets under the jurisdiction of the Federal Energy Regulatory Commission (FERC). These states allow end-use customers to choose their electricity provider (retail choice) and no longer have rate caps or other forms of regulatory protections that limit customers' exposure to wholesale market prices. Deregulated states are California, Connecticut, the District of Columbia, Delaware, Illinois, Massachusetts, Maryland, Maine, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, and Rhode Island. The regulated category includes those states with traditional rate regulation.

Weighted average retail rates for each category were calculated by dividing total annual revenue from sales to consumers in each category by total annual sales to consumers.

In most deregulated states, investor-owned utilities (IOUs) sold off their electric generating facilities as part of the implementation of the retail choice regime. Over the past few years, the percentage of customers purchasing from an alternative supplier has increased, and in over half of retail choice states a majority of total load is served by an alternative supplier, though residential load in all but a handful of states is served predominantly by the incumbent utility. The distribution utility purchases power from the wholesale market to serve the remaining customers not purchasing from an alternative supplier. (This is generally called default or provider-of-last-resort service). With the exception of part of Montana, all of these retail choice states are located in regions where wholesale electricity prices are set through centralized wholesale markets run by regional transmission organizations (RTOs) and Independent System Operators (ISOs).

The following chart and graph cover eighteen years of experience with retail choice programs. 1997 was chosen as the starting year as it represents the last year with essentially no retail choice activity. The decline in rates in deregulated states in 1998 and 1999 most likely reflects the effect of mandated rate decreases in retail choice states, but the decline was short-lived as rates began rising again in 2000.

Rates for both deregulated and regulated states increased steadily for the first half of the previous decade, then increased dramatically in deregulated states between 2005 and 2006 as more rate caps came off and natural gas prices increased. Rates in regulated states also increased, though at a slightly slower pace. Due to the decline in natural gas prices, rates in deregulated states remained relatively flat from 2008-2011 and declined in 2012; however, rates in deregulated states began increasing again in after 2012 as natural gas prices also began ticking up.

Total rates have remained fairly flat since 2013. Rates in regulated states increased by .3 cents between 2013 and 2014, but remained about the same between 2014 and 2015. The same is true for all US utilities during that time. Total rates in deregulated states increased by .6 cents between 2013 and 2014, and increased by .1 cent from 2014 to 2015. Although not shown in the chart below, residential rates remained the same for regulated states between 2014 and 2015, but increased by .4 cents in deregulated states, and are up 1 cent since 2013.

Average Revenue per Kilowatt-hour: Deregulated vs. Regulated States

Source: Energy Information Administration, Forms EIA-861 and EIA-826.

	Deregulated States (in cents per kilowatt-hour)	Regulated States (in cents per kilowatt-hour)	National
1997	8.6	5.8	6.8
1998	8.3	5.8	6.7
1999	8.1	5.8	6.6
2000	8.4	5.9	6.8
2001	8.9	6.2	7.3
2002	9.0	6.2	7.2
2003	9.1	6.4	7.4
2004	9.2	6.6	7.6
2005	9.7	7.0	8.1
2006	10.8	7.5	8.9
2007	11.3	7.7	9.1
2008	11.8	8.3	9.7
2009	12.0	8.5	9.8
2010	12.1	8.6	9.8
2011	12.0	8.8	9.9
2012	11.8	8.9	9.8
2013	12.1	9.1	10.1
2014	12.7	9.4	10.4
2015	12.8	9.4	10.4

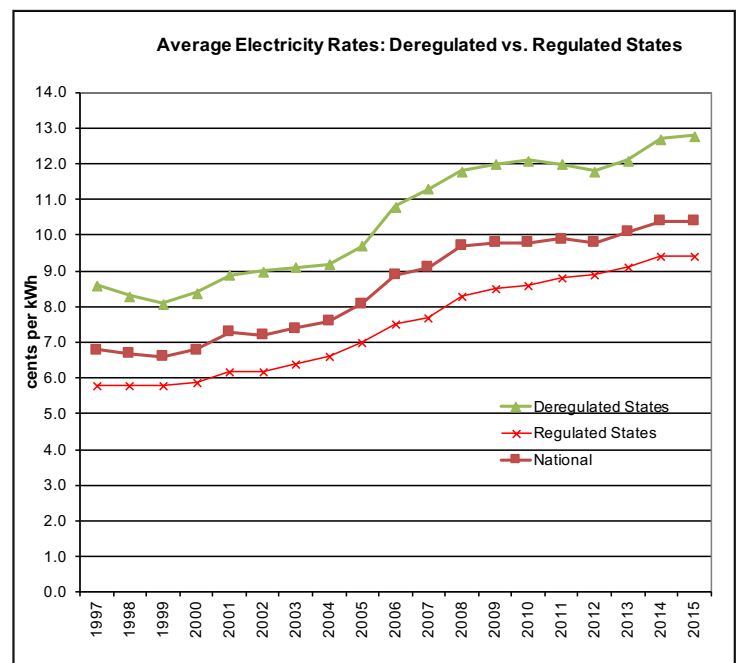
Difference, in cents per kilowatt-hour

1997-2005	1.1	1.2	1.3
2005-2015	3.1	2.4	2.3
1997-2015	4.2	3.6	3.6

Notes: Deregulated states include:
CA, CT, DC, DE, IL, MA, MD, ME, MI, MT, NH, NJ, NY, OH, PA, RI
Regulated states include all other states except for Texas.
Texas is included in the National average.

States that implemented retail choice electric plans were generally high cost states, and the hope was that competition by electric suppliers would result in lower rates. In 1997, the states in the deregulated category had weighted average rates that were 2.8 cents per kWh above rates in the regulated states (8.6 vs. 5.8). Unfortunately, the retail choice experience – complete with the combined effect of divestiture of utility generating assets, and exposure of retail consumers to wholesale rates set in RTO markets – has resulted in an even larger gap in 2015, with deregulated states paying, on average, rates that are 3.4 cents per kWh above rates in regulated states (12.8 vs. 9.4). This is the widest differential since 2010, when the rates in deregulated states were 3.5 cents higher than those in regulated states (12.1 vs. 8.6).

Though the percentage increase in rates since 1997 is higher overall in regulated states, again because rates were already much lower in these states, the promise of retail choice – lower rates – has not materialized.

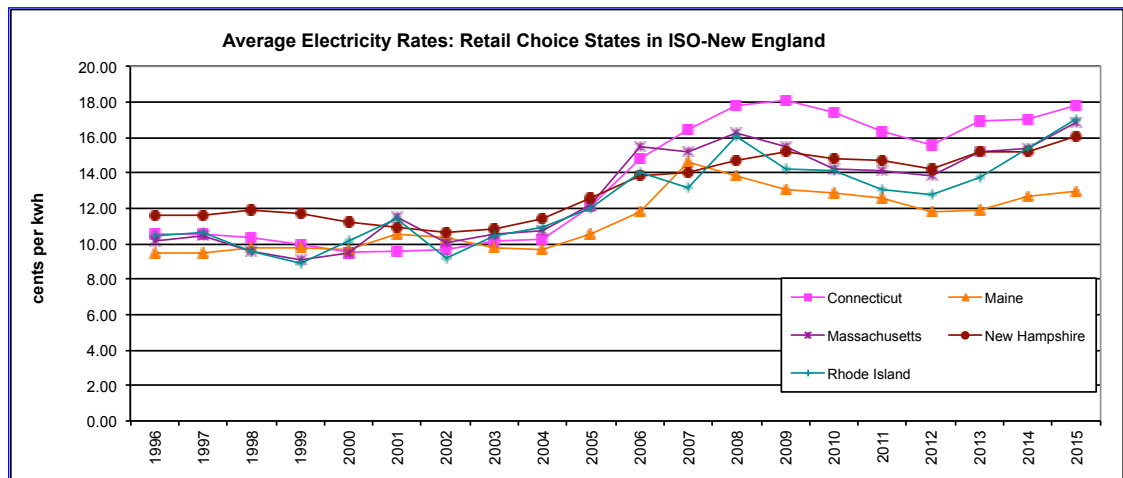


Data for Individual States

Five of the 15 states in the deregulated category are located in the footprint of the New England RTO (known as ISO-New England). The table below shows that rates for all five states were already well above the national average in 1997. Over the 18-year period, Connecticut, Massachusetts, and Rhode Island experienced rate increases significantly above the national average. The graph shows that rates in these New England states declined between 2008 and 2012, most likely due to steep drops in natural gas prices, as the New England region relies heavily on natural gas for generation. Rates increased in 2013 in all five states, and after a brief respite in 2014, increased dramatically in 2015, reflecting an increase in natural gas prices. Rates in Rhode Island particularly have risen sharply, from 12.74 in 2012, to 17.1 in 2015.

State Average Customer Rates, in cents per kWh

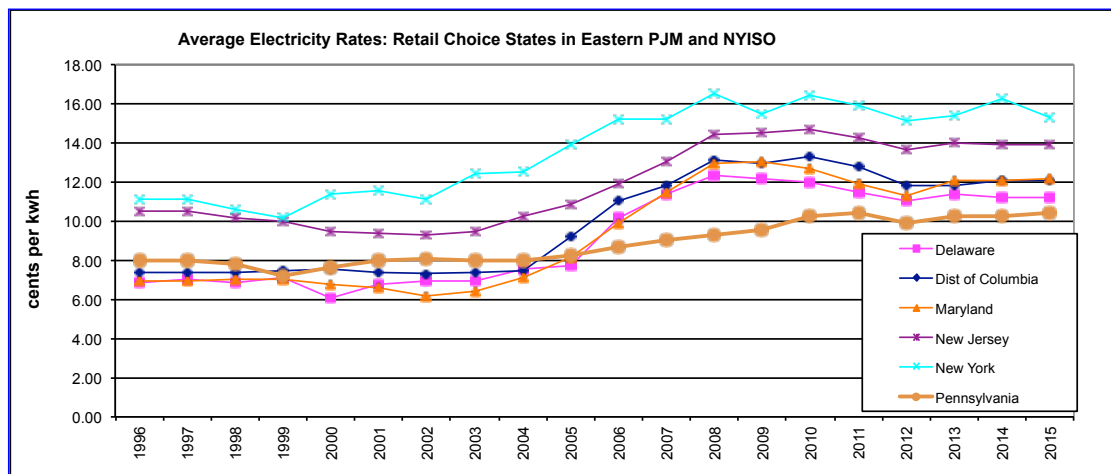
	<u>1997</u>	<u>2015</u>	<u>Difference</u>
<u>ISO - New England</u>			
Connecticut	10.5	17.8	7.3
Maine	9.5	13.0	3.5
Massachusetts	10.4	16.9	6.5
New Hampshire	11.6	16.0	4.4
Rhode Island	10.7	17.1	6.4
National Average	6.8	10.4	3.6



Four retail choice states and the District of Columbia are in the PJM RTO, and the state of New York comprises the New York RTO (known as NYISO). The table below shows that retail rates in all but two of the states increased more than the national average between 1997 and 2015, while rates in New Jersey increased at almost the same rate, though New Jersey continues to have the highest rate of the PJM states. Rates in Pennsylvania have increased less than the national average, though most Pennsylvania customers were still subject to rate caps until 2011. Rates for this state increased slightly as the rate caps came off in 2010 and 2011.

State Average Customer Rates, in cents per kWh

	1997	2015	Difference
<u>Eastern PJM and NYISO</u>			
Delaware	7.0	11.2	4.2
District of Columbia	7.4	12.1	4.7
Maryland	7.0	12.1	5.1
New Jersey	10.5	13.9	3.4
Pennsylvania	8.0	10.4	2.4
New York	11.1	15.3	4.2
National Average	6.8	10.4	3.6



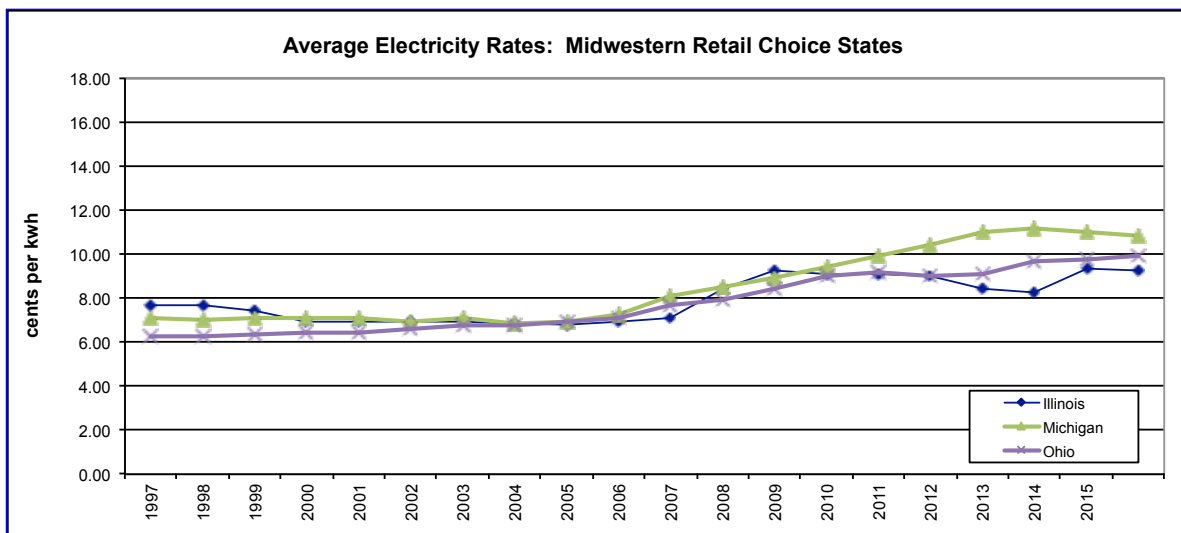
Utilities in the three retail choice states in the Midwest operate in both PJM and the Midcontinent ISO (MISO). These states saw rate increases at or below the national average, with Illinois experiencing the lowest increase in rates of the deregulated states. Commonwealth Edison, which serves over 60 percent of the load in Illinois, is in PJM, while the rest of the Illinois utilities, almost all of Michigan, and the northern half of Ohio are in MISO. Rate caps in Illinois expired after 2006, and the state implemented an auction process to procure supply. The auction led to high rates and, ultimately, a negotiated refund settlement with the largest utilities. The settlement was authorized by a 2007 law that also established the Illinois Power Authority to procure power for the state's IOUs.

Unlike IOUs in most retail choice states, Michigan utilities did not sell their generating assets, and as a consequence, only depend on wholesale power markets for a portion of their customers' power needs. Under the terms of a 2008 law, participation in retail choice programs is capped at ten percent of an IOU's retail sales. Almost no residential load in Michigan is served by an alternative supplier.

Until recently, Ohio utilities had been subject to transition rate regulation and were required to offer customers a rate approved by the Public Utilities Commission of Ohio (PUCO) under a cost-plus-based electricity plan. Beginning in 2012 a large share of IOU load was bid at competitive auctions, and a majority of customers had switched to alternative suppliers. Because a large portion of Ohio ratepayers are now directly exposed to wholesale market prices, Ohio is considered a deregulated state.

State Average Customer Rates, in cents per kWh

	<u>1997</u>	<u>2015</u>	<u>Difference</u>
<u>Midwest</u>			
Illinois	7.7	9.3	1.6
Michigan	7.0	10.8	3.8
Ohio	6.3	9.9	3.6
National Average	6.8	10.4	3.6



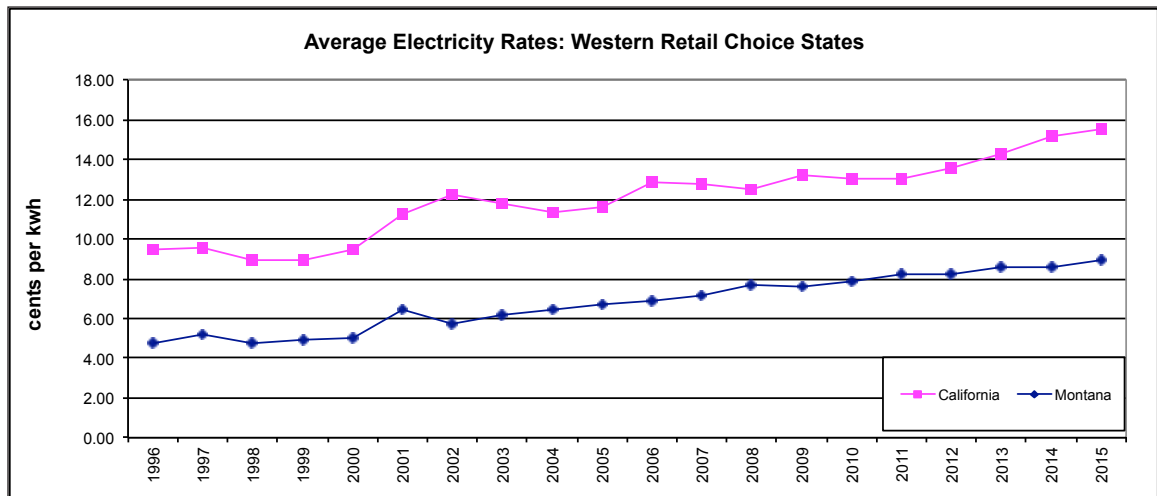
Only two western states implemented retail choice: California, which comprises the California ISO, and Montana. Both states currently have very limited retail choice programs applicable almost exclusively to large commercial and industrial customers.

Following the California energy crisis in 2000-2001, retail choice was suspended in the state, and the only customers that could choose their providers were those who were on retail choice plans at the time of the suspension. An October 2009 law allowed retail choice for commercial and industrial customers up to the level achieved prior to the suspension of retail choice, and in April 2010, the state Public Utilities Commission set the level at 11 percent of total retail sales. This state's rates have increased significantly since 1997.

Montana is the only retail choice state not entirely in an RTO, but the state's IOU sold off all of its generation, so the utility must purchase power in wholesale power markets, including RTO-operated markets. Montana enacted a law in 2007 to end retail choice for all but large customers with more than 5 megawatts of load and those customers on retail choice plans as of October 2007.

State Average Customer Rates, in cents per kWh

	<u>1997</u>	<u>2015</u>	<u>Difference</u>
<u>Western States</u>			
California	9.5	15.5	6.0
Montana	5.2	8.9	3.7
National Average	6.8	10.4	3.6



States that have adopted retail wheeling programs have used different schemes to deal with these utility "stranded costs." Some states have required that utilities divest of their generation (Texas); some states have issued bonds and allowed utilities to use the proceeds to supplement payments (California); and some states have enacted annual taxes for all residents (Montana). In every situation, states used various methods to generate revenue, largely paid for by residents and small businesses so that third party sellers have an opportunity to profit from selling electricity. Unfortunately, the disruption in these states has not resulted in lower prices. As the attached deregulation update for 2016 provided by the American Public Power Association shows, these states continue to experience increased rates.

Please vote no on SB209. It is the unnecessary start to a negative disruption of an industry on which Kansans rely every day. Thank you.