KEPCo

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Senate Utilities Committee
KEPCo Testimony in Opposition of SB347

Mr. Chairman 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.

SB347 exempts electric cooperatives and municipal utilities. However, the bill may impose a substantial financial impact to KEPCo and its member cooperatives through the wholesale power agreement KEPCo has with Westar Energy. KEPCo purchases approximately 35% of its energy requirements from Westar Energy and generation-related expenditures and costs are inputs to Westar Energy's Generation Formula Rate (GFR). The GFR is the mechanism by which Westar Energy bills KEPCo for generation costs associated with the energy KEPCo purchases. The program described in SB347 may be considered a generation-related cost and may be included in Westar Energy's GFR, and the costs caused by SB347 would therefore flow through to KEPCo and its nineteen-member cooperatives.

KEPCo strongly opposes SB347 for a myriad of reasons which I will enumerate.

- The long-standing reason for the Kansas Corporation Commission's (KCC) existence, under existing statutes, is to ensure that Kansas utilities are providing efficient and sufficient service. This bill conflicts with that purpose by removing the KCC's discretion to reject unnecessary, uneconomic investments at the expense of Kansas consumers. The KCC has exercised this discretion in the past (KCC Docket Number 16-KCPE-446-TAR), and it has saved Kansas consumers money.

- At a time of concern with electric rates in Kansas, SB347 will unequivocally and unnecessarily increase rates on all Kansan consumers - residential, large industrial, and small commercial alike – by establishing, in statute, that Kansas consumers pay for investments that are not cost-competitive. Any cost incurred by a utility to implement, manage, and maintain a program(s) will be borne by Kansas consumers. Not only the cost of the program, but the utility will also earn a rate of return on the program(s) investment and ongoing expenses.

- Kansas is a member of the Southwest Power Pool (SPP). Today, and quite possibly for an extended time, the SPP has an abundance of generating capacity and as such, the wholesale market price for capacity within the SPP region is very low. Incremental demand response in such a market has minimal value.

- Demand-side programs provide the most value when a utility is capacity-constrained, and the costs of installing additional capacity outweigh the cost of a demand-side program. Any demand-side program considered by this Legislature, that is intended to reduce a public utility's peak demand, should be cost-justified against market capacity prices, not cost-justified based upon new-build generation capacity.
- If a demand-side program should be used to justify retirements of existing generation, it should be done only to the extent that such programs are demonstrably more cost-effective than maintaining existing generation.
- SB347 establishes targets that utilities shall achieve each year. KEPCo submits that differentiating between energy and demand reduction from the proposed program and energy and demand reduction from changes in weather and other influential factors, from year-to-year, will be virtually impossible to document and prove.
- SB347 establishes performance incentives. The Legislature should be careful when considering incentives. Kansas has been impacted by a tremendous amount of transmission projects, and associated costs, since the Federal Energy Regulatory Commission (FERC) instituted incentive returns in transmission rates several years ago. Such incentives often influence behavior that does not benefit the Kansas consumer, and please remember, Kansas consumers will ultimately pay the incentive. Establishing incentives, in statute, is a perversion of the competitive market in that utility companies will not need to demonstrate that their profits are inadequate or need to be supplemented by Kansas consumers in this artificial manner. This bill compensates utility companies to not sell their product.
- SB347 compels the Kansas Corporation Commission (KCC) to allow cost recovery mechanisms for investments in demand-side programs, even if such programs are not cost effective and are only theoretically operationally effective.
- SB347 allows for decoupling mechanisms that allow utilities to recover lost revenues from sales not made due to investment in demand-side programs.

In closing, SB347 permits and encourages an unbridled spend of Kansas consumer dollars that will lead to higher electric rates for a purpose that is not required to be cost effective, allows the implementation of efficiency metrics that may not portray a true and accurate representation of the value of a demand-side program, and will remove the KCC's discretion to disallow uneconomic investments.

KEPCo respectfully asks the Senate Utilities Committee to strongly oppose SB347.

Mr. Chairman, this concludes my testimony and I stand for questions.