

**Testimony of Kansas Industrial Consumers Group
and Kansans for Lower Electric Rates
In Support of Substitute for SB 126
House Energy, Utilities & Telecom Committee
March 10, 2020**

Kansas Industrial Consumers Group (KIC) and Kansans for Lower Electric Rates (KLER) appreciate the opportunity to address a simple issue that can start the process of reducing Evergy's high electric rates, and the rates of other investor-owned utilities. Substitute for SB 126 would end the Kansas corporate income tax for investor-owned utilities – without negative impacts to the state budget – and benefit customers by reducing rates.

The simple reason is that, for perfectly legal and reasonable accounting treatments, the utilities are collecting payments from customers for income tax expenses, but not remitting those collections to the state treasury.

Between 2014-2019, Evergy (KCP&L and Westar), Liberty Utilities (Empire), Kansas Gas Service, Atmos Energy and Black Hills Energy collected about \$250 million from customers to pay for Kansas income taxes. But ZERO ended up going to the State. Evergy has communicated to Wall Street it will not pay taxes for at least the next several years.

The solution is to simply end the state income tax for gas and electric utilities. If the income tax is eliminated, utilities can't collect income taxes from customers, causing rates to decrease.

We know a reduction in income taxes will directly reduce utility rates because it happened in 2018 and 2019 after passage of the federal Tax Cuts and Jobs Act, which reduced the federal corporate income tax rate from 35% to 21%. Because federal income taxes are a component of utility rates (just like state income taxes) a large reduction in this expense caused utility rates to decrease. The exact same thing would happen with SB 126, although on a smaller scale (14% Federal reduction versus 7% state reduction.)

Last year, the Kansas Corporation Commission (KCC) estimated eliminating the Kansas income tax expense will save Westar and KCP&L customers \$22.8 million and \$8.6 million each year, respectively. When all other Kansas investor-owned utilities are included, the customer savings estimated by the KCC are about \$40 million per year.

SB 126 should also benefit the customers of electric cooperatives and municipal utilities by reducing rates for wholesale energy and transmission services. This means all Kansans would be positively impacted by SB 126.

As we seek to make Kansas electric rates regionally competitive, it should be noted, effective January 1, 2020, Missouri reduced its corporate income tax rate from 6.25% to 4%. This will eventually cause Missouri utility rates to decrease, dropping Kansas further behind.

In the Senate Utilities Committee and during Senate debate, there were a number of changes to

the bill to address concerns raised by Evergy, the KCC and other utilities. The changes primarily dealt with:

- Process issues at the KCC
- Clarifying new rate changes for income taxes do not require a traditional rate case, nor would they violate Evergy's rate moratorium
- Phasing in decreases and dictating treatment of accumulated deferred income taxes to ensure Evergy's credit metrics are not negatively impacted

KIC and KLER want to be good partners at the Legislature and will always listen to concerns and attempt to address them.

In summary, Senate Bill 126 is a great option for the State to begin reducing utility rates. And it will do so in a fashion that does not appear to negatively impact any stakeholder – the utilities, customers, or the State. Thank you, and I urge passage of SB 126.

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