



**Testimony of Jim Zakoura, Kansas Industrial Consumers Group
Regarding Barriers to Economic Growth in Kansas
Before the Senate Commerce Committee
January 29, 2020**

The Kansas Industrial Consumers Group (KIC) is a coalition of large-volume energy users in Kansas. The core companies that comprise KIC account for over 40 percent of Evergy's (Westar) industrial sales. The members collectively represent billions of dollars of investment in the State and employ thousands of Kansans. We believe high energy costs are negatively impacting residential consumers, schools, hospitals, and large and small businesses.

We commend the leadership of this committee for addressing the pressing and important issue of economic barriers. Kansas has problem with high electric rates. High electric rates are indeed a barrier to economic development and growth in Kansas.

The attached charts tell the story of the situation Kansas is faced with. Our rates are simply not competitive with the region. This applies to residential, commercial and industrial rates. One of the chief challenges in Kansas, illustrated in the last chart, is Evergy has basically flat electric demand, but continues to invest at a significant rate.

Increased investment, without additional customers or demand, results in rate increases. Since 2007, electric rates in Kansas have increased 70 percent.

Any economic development professional will tell you energy rates are a factor in the site selection for a company, whether it's to relocate to Kansas, expand current operations or simply to stay in business. This is especially true of energy intensive companies like manufacturers, the very companies Kansas is trying to lure to the state to broaden the tax base for everyone.

In 2018 and 2019, a manufacturer with current operations in DeSoto, Kansas, was looking to build an additional facility near Newton. This site would have required a sizable capital investment with hundreds of employees. However, when compared to a similar site in Oklahoma, the proposed Kansas property would have had an incremental \$5 million annual charge for electricity. Few companies can overlook an annual excess expenditure of that nature.

The City of Pittsburg, Kansas has been dealing with this issue given its proximity to both Oklahoma and Missouri. In a recent news report, Pittsburg Assistant City Manager Jay



Byers underscores the challenge with high electric rates:

“There’s a lot of factors that are involved, and electricity rates are typically one of those,” Byers said. “We are of the opinion that businesses have ruled us out ... they don’t even consider us. We don’t even hear from them because they see what our rates are and they go ‘well why would I do that I’ll just go to Oklahoma or Missouri or some other lower rate place.’ So we are worried about the ones we never hear from.”

Fortunately, the Legislature is starting to address the issue. But much work needs to be done and we are only at the beginning.

Last year the Legislature overwhelmingly approved SB 69, which called for a study of Kansas electric rates with the goal of making our electric rates regionally competitive. The first phase of that study was released earlier this month and validates the concerns KIC and others have voiced. The rate study also provides the Legislature a bit of guidance on how to achieve more competitive rates. A brief summary of the rate study is attached.

The SB 69 rate study follows a study in early 2019 by the Kansas Corporation Commission, which was prompted in part by 2018 SCR 1612, asking the KCC to review rates. The KCC study (and the SB 69 study) confirm Kansas has high electric rates.

The KCC report highlights the positive impact of bringing in additional industrial customers to Kansas. The reason for this is simple: additional customers and associated electric load allows utility costs to be spread further, lowering rates for all customers (including residential).

Therein lies the classic “catch-22”: ***How do we attract needed customers when our rates aren’t competitive?***

There are many opportunities to reform our utility laws and regulations, and empower the KCC to take an active role making rates competitive. KIC stands ready to partner with the Legislature to explore solutions. The economic health of our state depends on it.

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Electric rate study validates concerns and provides path to competitive rates

The Legislature in 2019 strongly supported the passage of SB 69, which called for a comprehensive study of electric rates to help achieve regionally competitive rates. The first phase of the study was released January 8.

The study reviewed the effectiveness of current Kansas ratemaking

The Good

- “the current ratemaking practices for IOUs (Evergy) perform well in terms of attracting adequate capital investments”
- “current ratemaking processes for Kansas electric co-ops and munis are in the public interest”

The Bad

Current ratemaking methods favor utilities

- “the current IOU ratemaking practices reflect some degree of imbalance between utility incentives and public interest objectives (such as achieving regionally competitive rates or other public policy objectives)”

Underutilized assets are a drag on rates

- “while the KCC’s primary objective standards and vetting process for ensuring the prudence of utility investments are sound, they are limited in terms of protecting ratepayers from paying for investments that are underutilized. For instance, declining capacity factors of currently operating rate-based Kansas coal plants (two of which have capacity factors significantly below the regional average) suggest a need to periodically review their usefulness”

Surcharges need adjustment

- “there is potential for improvement in the processes for review of recovery of surcharges and riders”

The study highlighted **near-term options available to help address rates**:

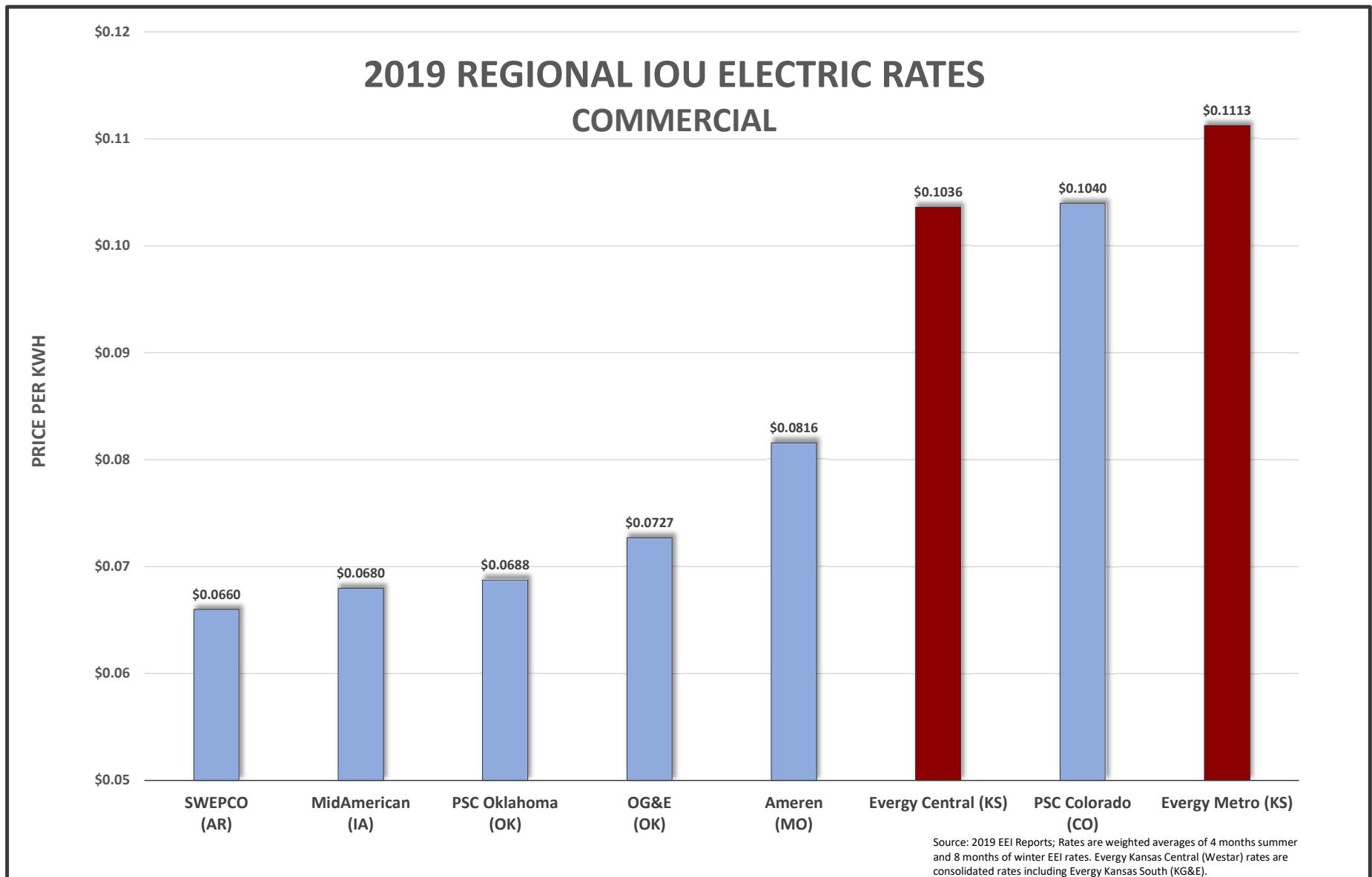
- establish a State energy plan
- mandate integrated resource plans from utilities with a competitive procurement framework
- allow the KCC to explore the development of initial performance-based ratemaking (PBR) mechanisms aligning utility and customer interests
- establish a framework allowing for the securitization of uneconomic assets, given that the cost/benefit analysis of asset retirement demonstrates clear benefits to consumers.

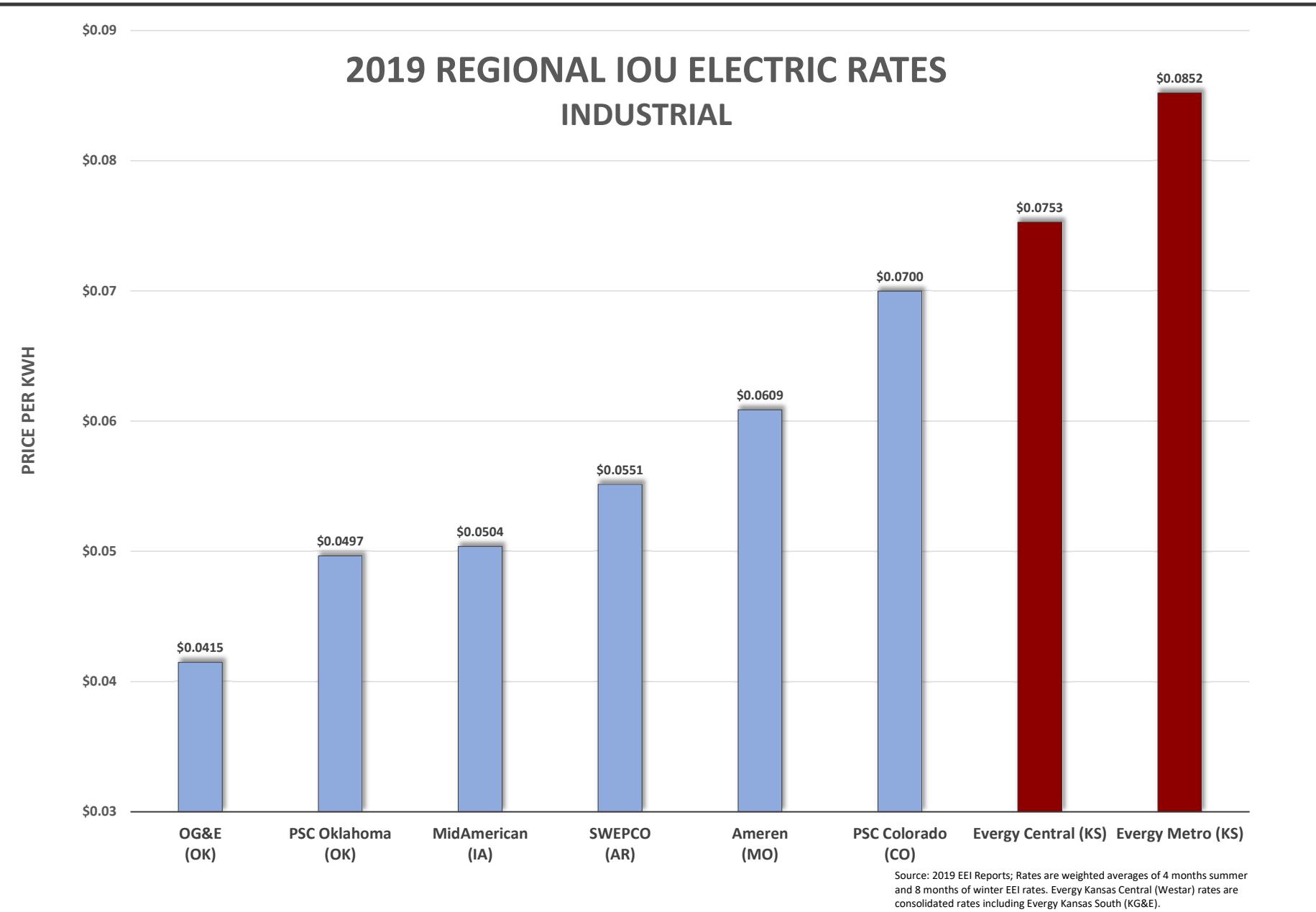
Regional Electric Rate Comparison

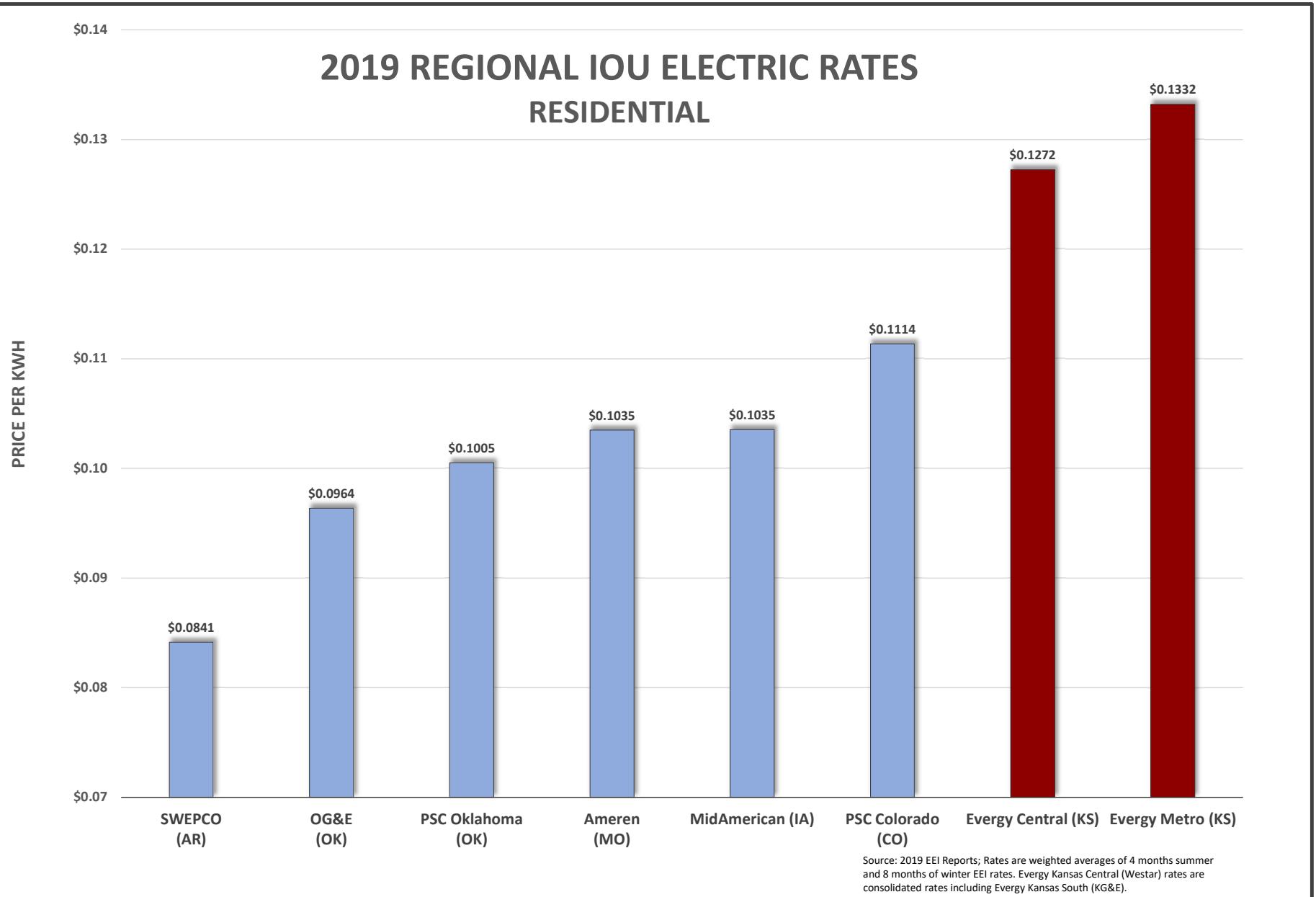
2019 -- Sorted by Residential

| Municipal Utilities^{1,2} | State | Residential | Commercial | Industrial |
|---|-------|-------------|------------|------------|
| | | (¢/kWh) | (¢/kWh) | (¢/kWh) |
| McPherson Board of Public Utilities | KS | 7.17 | 6.52 | 5.01 |
| Omaha Public Power District | NE | 10.43 | 10.40 | 8.00 |
| Independence Power & Light | MO | 13.70 | 11.99 | 8.45 |
| Kansas City Board of Public Utilities | KS | 14.36 | 11.68 | 8.30 |
| <hr/> | | | | |
| Investor Owned Utilities³ | | | | |
| Southwestern Electric Power Company | AR | 8.41 | 6.60 | 5.51 |
| OG&E Electric Services | OK | 9.64 | 7.27 | 5.06 |
| Public Service Company of Oklahoma | OK | 10.05 | 6.88 | 4.97 |
| MidAmerican Energy | IA | 10.35 | 6.80 | 5.04 |
| Ameren Missouri | MO | 10.35 | 8.16 | 6.09 |
| Public Service Company of Colorado | CO | 11.14 | 10.40 | 7.00 |
| Evergy Missouri West (KCP&L GMO) | MO | 11.46 | 9.24 | 6.92 |
| Evergy Kansas Central (Westar) | KS | 12.72 | 10.36 | 7.53 |
| Evergy Missouri Metro (KCP&L) | MO | 13.18 | 11.21 | 7.96 |
| Evergy Kansas Metro (KCP&L) | KS | 13.32 | 11.13 | 8.52 |

Notes: ¹ Charges for the PILOT have been included in rates. ² Rates are calculated using current rates and the same billing determinants as EEI rates. ³ Rates are weighted averages of 4 months summer and 8 months of winter EEI rates.







Westar 2007-2018

Utility Property (Capital Investments) vs. Electricity Sales

