

Kansas Senate Utilities Committee  
Testimony of Citizens' Utility Ratepayer Board  
Supporting Senate Bill 24  
January 31, 2019

My name is David Nickel, Consumer Counsel for the Citizens' Utility Ratepayer Board (CURB). Senate Bill 24 provides that an electric utility electing to recover the utility's transmission-related costs through a transmission delivery charge (TDC) pursuant to K.S.A. 66-1237 may include, as a component of such charge, a return on common equity capital associated with the transmission facilities owned by the utility (TDC return) not to exceed the actuarially assumed investment rate of return established by the board of trustees of the Kansas Public Employees Retirement System (KPERs).

CURB supports Senate Bill 24 for three main reasons. First, CURB believes that reducing the TDC return is appropriate and fair because utilities that recover transmission-related costs through a TDC, as authorized by K.S.A. 66-1237, are able to recover those costs with very little regulatory lag and even less regulatory risk. Therefore, if an electric utility chooses to recover its transmission-related costs through a TDC, it is appropriate for the TDC rate of return to be lower than the rate of return on other capital investments that are subject to regulatory lag and the scrutiny of a general rate case examination.

In the cases of both Westar Energy, Inc., (Westar) and Kansas City Power & Light Co. (KCP&L), the Kansas Corporation Commission (Commission) has authorized these utilities to earn a rate of return on common equity at 9.3%. The Commission established this rate of return during a rate case after a full and thorough examination of each utility's capital costs and capital investments. By statute, a general rate case takes 240 days to complete, and is based upon actual investments and expenses that a utility incurred during a specific period of time, usually prior to the utility's application to increase rates.

Alternatively, transmission-related costs and investments that utilities recover, pursuant to K.S.A. 66-1237, earn a 10.3% rate of return on each respective utility's transmission-related costs. Additionally, the TDC rates are based upon the most recent year's transmission-related costs, become effective upon 30 business days notice and are conclusively deemed prudent. Said another way, after providing 30 business days notice, the TDC rate that is based upon millions of dollars of investments, becomes effective and is passed onto ratepayers with no regulatory lag and limited regulatory risk.

The second reason why CURB supports Senate Bill 24 is that TDC rates have increased exponentially, causing ratepayers bill instability. The amount of Westar's transmission-related costs has increased dramatically since 2008. Similarly, the TDC rate charged by Westar to its ratepayers has increased each and every year. In July of 2008, a typical Westar customer using 916 kWh in a month would have had a TDC charge on their monthly bill of less than \$4. In July 2018, the same customer has a TDC charge on their monthly bill of \$18.67. The difference between the TDCs in July 2008 and

July 2018 constitutes more than a 300% increase in the TDC charge on a typical Westar customer's monthly bill. That 300% increase has been passed directly onto ratepayers, with extremely limited time for evaluation and scrutiny, for the benefit of Westar and its shareholders.

To keep this in perspective, during a general rate case, one item that CURB advocates the Commission for is to keep the customer charge on a utility customer's bill as low as possible, as that benefits low-income and fixed income utility consumers. In July 2008, Westar's monthly customer charge for a residential customer was \$7.50. At the conclusion of Westar's most recent general rate case that was approved by the Commission in September 2018, the monthly customer charge for a residential customer was set at \$14.50 per month. This rate will remain in effect for all residential customers through 2023. The TDC, on the other hand, has increased from \$4 per month to nearly \$19 per month, and it will continue to increase during the rate moratorium. Based upon a January 2019 investor presentation, Westar and KCP&L are projecting that as a combined company, it will add nearly \$1 billion in transmission-related investments (and recoup those investments via the TDC) through 2022. Consumers who believe that their utility bills will not increase during the next five years due to the five-year rate moratorium will be disappointed.

Unlike Westar, KCP&L did not pass through transmission costs through the TDC until late 2016. Since November 14, 2016, the date the TDC first became effective on KCP&L bills, KCP&L's transmission rates have increased for a typical summer customer from \$8.70 per month to \$12.47 per month. This is an increase of 43% in just twenty months. Additionally, it is expected that within the two to three months, both KCP&L and Westar will make new applications for the recovery of new transmission related costs, which will likely cause consumer bills to increase despite the five-year rate moratorium.

Currently, the Empire District Electric Company (Empire) does not have a TDC rider to recover its transmission-related costs through K.S.A. 66-1237. Although, in its December 10, 2018 application to increase rates, Empire is seeking to recover its transmission-related costs using a TDC rider through K.S.A. 66-1237. In Kansas, Empire operates in only Cherokee and Labette Counties, serving just 8,173 residential customers. Empire has not changed its base rates since January 1, 2012. Based upon its current request to increase base rates, Empire has requested permission to increase its rates \$2.5 million. According to Empire's application, of the \$2.5 million increase, only \$800,000 would be included in base rates and is attributable to significant investments in its generation and distribution systems and other normal inflationary increased in operating costs. The remaining \$1.7 million is related to new investments in transmission that likely will be recovered from ratepayers through the TDC rider, potentially at a higher rate of return than other capital investments.

The third reason why CURB supports Senate Bill 24 is CURB's belief that it will afford some relief to consumers without a material adverse impact upon either Westar or KCP&L. In CURB's view, a rate of return on TDC investments at the actuarially assumed investment rate of return established by the board of trustees of KPERS is still an excellent return on investment. Thus, CURB supports Senate Bill 24 upon the reasonable premise that it should not result in any change in the rate moratorium that accompanies the merger agreement between KCC Staff, CURB, Westar and KCP&L. In these regards, the TDC was not part of the settlement agreement; therefore, there was no agreement of the parties that it was to continue in its current form. CURB urges the favorable reporting of Senate Bill 24 out of the Committee.