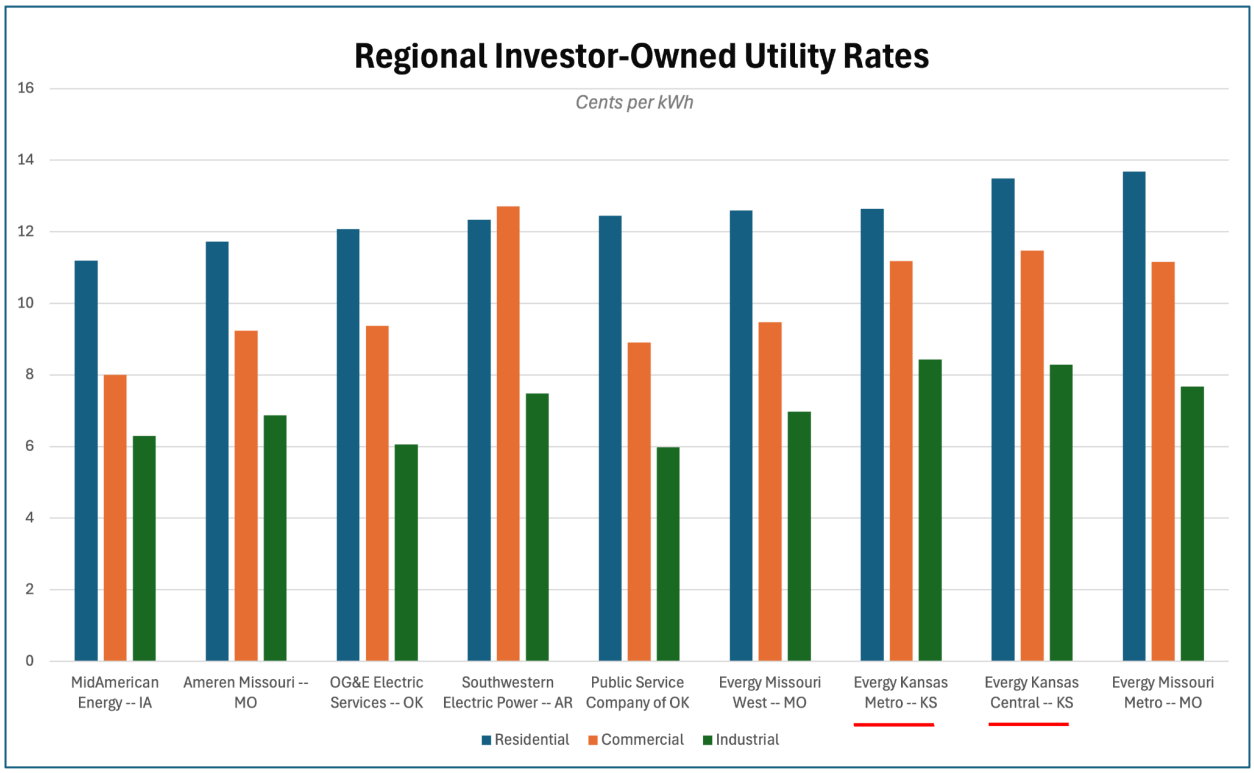
Kansas Industrial Consumers Group

KANSANS FOR LOWER ELECTRIC RATES

Testimony of Kansans for Lower Electric Rates (KLER) and Kansas Industrial Consumers Group (KIC) In Support of House Bill 2032 Before the House Energy, Utilities & Telecom Committee February 4, 2025

Since 2018 we have been sounding the alarm about high electric rates in Kansas. More specifically, we have highlighted Evergy's highest-in-the-region rates, compared to their investor-owned peers (attachment 1 and below). We believe that excessive capital spending is the root cause of our high rates and the chief impediment to achieving regionally competitive electric rates.



Electric rates are a key factor of success for many businesses and a simple matter of necessity for many Kansans. Affordability and reliability are paramount.

Over the years we have offered several proposals to improve the state's electric rate problem. Thanks to this committee some proposals have been successful, and some not. Even with the successful proposals, such as improvements to the transmission delivery charge (TDC) in 2023, Evergy has found other avenues to increase rates.

HB 2032

This year, HB 2032 proposes an incentive (and disincentive) approach to controlling rates. If Evergy is able to limit rate increases in a calendar year to one percent, the KCC is authorized to increase Evergy's return on equity (ROE) up to 50 basis points (.5%). If rates increase more than one percent, the KCC may decrease the ROE up to 50 basis points. The concept is simple: incent the results you want. We will never reach our rate goal with the current trajectory of increases.

The return on equity is the mechanism or tool in HB 2032 because it is the most impactful and contentious part of utility ratemaking. The ROE is the financial return granted to shareholders for their invested capital. A higher ROE means more money for shareholders. Evergy's current assumed ROE is 9.4 to 9.5 percent.

In ratemaking, operating costs like salaries, fuel, taxes, and debt payments are passed through 100% to customers. Utilities make money for shareholders through the invested capital making up its "rate base" – mostly poles, wires, substations, and generating assets. In simple terms, the rate base is multiplied by a return on equity. If you increase investments, rates go up. If you increase the return on equity, rates go up.

Granting an increase in the ROE will cause rates to increase, but the increase will be less than uncontrolled capital spending that puts new costs into rates for 40-60 years. And, the threat of a reduced ROE is a powerful tool for the KCC to use to combat high rates.

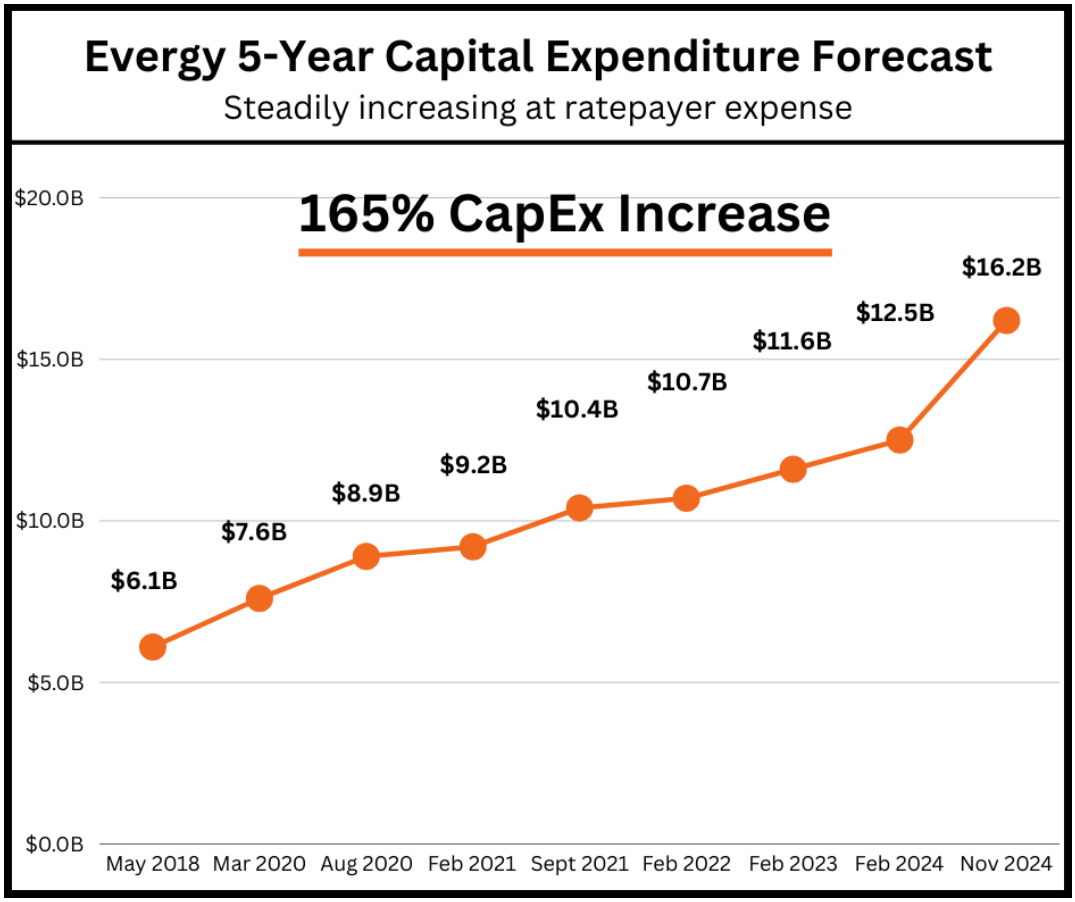
Capital Spending

As noted, shareholder value increases when capital spending increases. Evergy has been increasing capital spending at an unsustainable rate.

The KCC has expressed concerns about Evergy's capital spending several times, including saying:

> "The Commission is also concerned with new Evergy projections of future spending increases."-- Paragraph 27 of the Order for Docket 21-EKME-088-GIE.

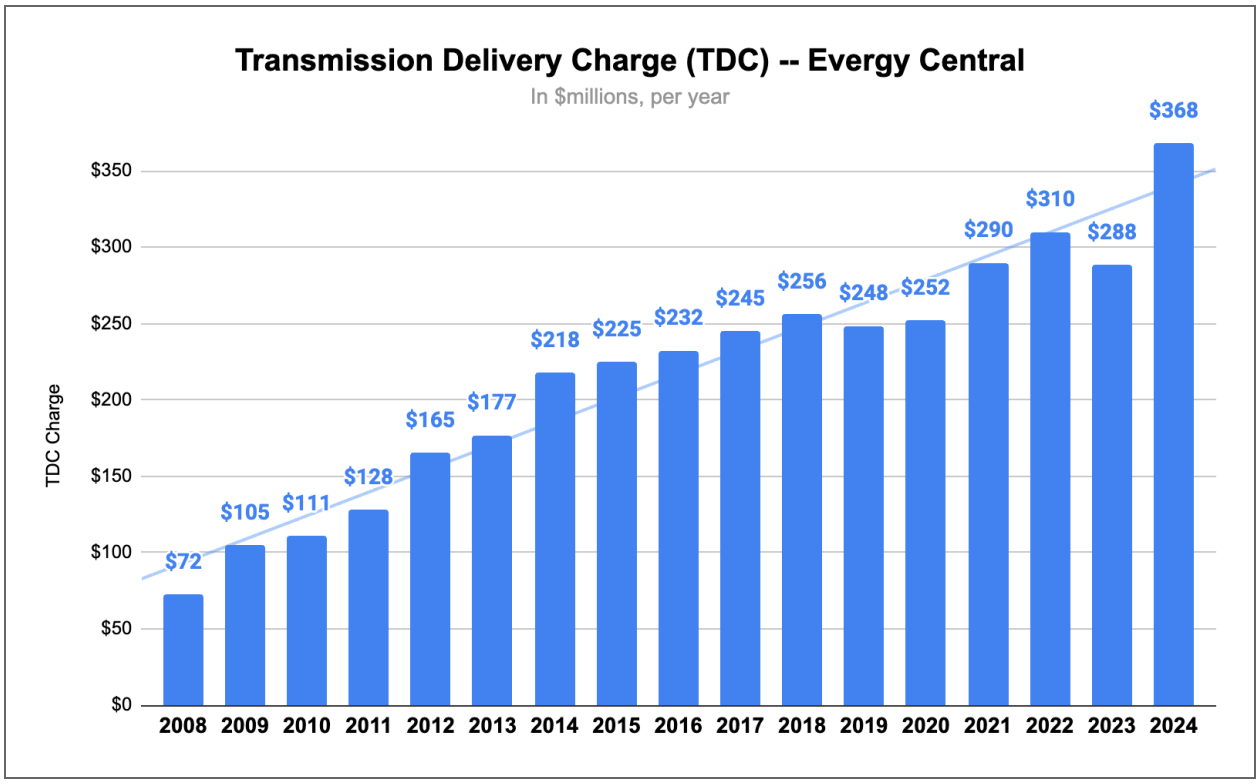
Unfortunately, these (multiple) expressions of concern from the KCC have not slowed the pace of increases in capital spending, as illustrated by the chart below.



Let me be clear, we are not asking Evergy to stop spending money. We are asking that spending be moderated like every business and family has to do and return to historic spending patterns. Reliability and competitive rates can coexist. The proof can be found in places like Des Moines, Little Rock, St. Louis, and Oklahoma City.

Transmission Spending

Transmission spending is currently a large cost driver for rates. The TDC has increased significantly since its approval by the Legislature in 2007.



The one percent threshold in HB 2032 captures the TDC along with the other surcharges on Evergy bills.

Support HB 2032

Until Evergy has other ways to increase shareholder value it will continue to increase capital spending and customers will continue to pay increasing bills, while the state falls further in regional rankings. HB 2032 can provide an alternative approach, breaking the decades-old dynamic of utilities making money simply by investing capital.

Support HB 2032 to take a step toward regionally competitive electric rates.

Contact:

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The Kansas Industrial Consumers Group (KIC) is a coalition of large-volume energy users in Kansas. The members collectively represent billions of dollars of investment in the State and employ thousands of Kansans. Kansans for Lower Electric Rates (KLER) is an advocacy project of KIC with members of all sizes. We believe high energy costs are negatively impacting residential consumers, schools, hospitals, and large and small businesses.

Attachment 1

Kansas Industrial Consumers Group

KANSANS FOR LOWER ELECTRIC RATES

Regional Electric Rate Comparison

2023/2024 -- Sorted by Residential

Muncipal Utilities	State	Residential (¢/kWh)	Commercial (¢/kWh)	Industrial (¢/kWh)
McPherson BPU	KS	9.41	7.48	5.84
City of Russell	KS	10.72	8.68	7.03
Omaha Public Power District	NE	13.05	9.51	7.9
Independence Power & Light	MO	15.11	14.18	11.22
Kansas City BPU	KS	16.71	14.89	10.39
Investor Owned Utilities (IOU)				
MidAmerican Energy	IA	11.19	8.00	6.29
Ameren Missouri	MO	11.73	9.24	6.87
OG&E Electric Services	OK	12.08	9.37	6.06
Southwestern Electric Power	AR	12.33	12.71	7.48
Public Service Company of OK	OK	12.45	8.91	5.98
Evergy Missouri West	MO	12.59	9.47	6.97
Evergy Kansas Metro	KS	12.64	11.18	8.43
Evergy Kansas Central	KS	13.49	11.47	8.29
Evergy Missouri Metro	MO	13.68	11.16	7.67

Notes: Updated Jan 2025 using Summer 2023 and Winter 2024 EEI rates

Municipal rates include charges for the PILOT and are calculated using current rates and the same billing determinants as IOU rates

*IOU rates are weighted averages of 4 months summer and 8 months of winter Edison Electric Institute rates and do not include any special contract rates. *Xcel CO no longer provides rate information to EEI.*