Testimony in Opposition to HB 2032
Chuck Caisley, EVP, Chief Customer Officer, Evergy
For the House Committee on Energy, Utilities and Telecommunications

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Thank you, Mr. Chairman and members of the committee, for the opportunity to comment on HB 2032, which authorizes the Kansas Corporation Commission (KCC) to increase or decrease an electric public utility's return on equity (ROE) based on whether such utility's all-in average retail rate has increased or decreased in the previous calendar year. We are opposed to both the bill and to the policy intent behind HB 2032. This bill is a solution in search of a problem, it is a significant departure from how rates are currently set in Kansas and in most states in the U.S., and it will put in jeopardy the historic economic growth opportunity Kansas has before it with significant opportunities in the expansion of manufacturing and technology.

Specific concerns with HB 2032 include:

- The KCC already has the authority to adjust utility ROEs up and down within the context of rate cases. Kansas already has ROEs that are below the national average, while at the same time having lower growth in electricity prices, better than almost every other state in the nation.
- Practical implementation of this bill will be cumbersome, costly and lead to unintended consequences. For example, many items included in “all-in average retail rates” are outside of the utility’s control. If taxes or Southwest Power Pool (SPP) assessments decrease, both of which happen outside of the utility's control, a utility should not get to earn more on all its investments for a year. Conversely, if a utility increases its fuel costs to procure natural gas or additional power in a polar vortex, the utility should not be penalized or disincentivized to keep the lights on. In either example, this is an anti-consumer policy. No other state in the U.S. has a mechanism that works like this.
- This bill creates a severe disincentive to invest in the electrical grid at a time when grid investment is the highest in U.S. history. Utilities across the U.S. are investing in the electrical grid to combat significant aging infrastructure and to deploy technology to improve reliability, resiliency and decrease outage durations. Should this bill pass, a utility would have to severely limit investment in these areas, putting Kansas at a severe disadvantage to other states in reliability and economic development. For Evergy, this bill would put into severe jeopardy the planned construction of the two natural gas power plants in Kansas announced last year as well as cause a significant overall reduction of investment in the electrical grid. Many of the companies and projects Evergy and the state are currently working to recruit and bring to Kansas will have the timelines to serve increase and the availability of needed electricity jeopardized. This will result in fewer new jobs, less tax revenue and ultimately higher electric rates.

- Evergy's capital investment is already below the median investment level of electric utilities in surrounding states. This means that despite increased investment levels in the electrical grid, Evergy's rates have improved and continue to improve their regional and national competitiveness—without the "incentives" of new policies like HB 2032 proposed by Kansas Industrial Consumers.
- The one percent level of "all-in average retail rates" increase or decrease is completely arbitrary and is not indexed against any other economic factors or forces. It does not account for periods of extreme cold or heat, outside of any utility's control. It does not account for national monetary policy or inflation. It does not account for the investment levels needed in the electrical grid and how that fluctuates over time. It is an arbitrary number that is far less than the investment levels in the grid in every single state in the U.S.

Electricity rates are composed of three major drivers:

- Investment in the electrical grid and power generation;
- Operations and maintenance costs; and
- Costs outside of or mostly outside of the utility's control, the largest of which are taxes, franchise fees and fuel.

Since 2017, Evergy's retail rates have increased less in the state of Kansas than every other state that borders Kansas—at a rate well underneath inflation. This reflects the fact that Evergy has invested less in the electrical grid over that same time relative to neighboring states. And Evergy's forward looking capital plan is below the median investment level of surrounding states. All the investments that Evergy makes in the grid are heavily scrutinized by the KCC and other regulatory stakeholders in multiple proceedings to determine their necessity and prudence. This includes an annual capital investment review, the filing of an Integrated Resource Plan (IRP), predetermination proceedings and rate review cases before the KCC.

Over that same period, Evergy has reduced its overall operations and maintenance budget by more than $300 million annually, reducing overall budgets inclusive of more than 20% inflation over that same time. While states like Texas, Oklahoma, Missouri, Colorado and Kansas (with the nearly unanimous passage of HB 2527 last year) encourage their electric utilities to invest in infrastructure and be a catalyst for growing the economy, industrial interests in Kansas continue to advocate for less investment, less economic development and more regulations on utilities all to preserve their special contracts, which make up the lowest electric rates of any consumers in the state.

Evergy believes Kansans should be served by reliable and affordable electricity that empowers economic growth and expansion to benefit all. As such, we oppose this bill, and any attempt like it to close Kansas for business expansion.