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Before the House Committee on Energy, Utilities, and Telecommunications

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Written Only Neutral Testimony on House Bill 2032

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On Behalf of The Staff of the Kansas Corporation Commission

Chair Delperdang, Vice Chair Wilborn, Ranking Minority Member Ohaebosim, and members of the Committee, thank you for the opportunity to provide testimony today on behalf of the Staff of the Kansas Corporation Commission (KCC or Commission).

The Staff of the KCC is Neutral towards the passage of HB 2032. This bill would allow the KCC to increase (or decrease) a utility's return on equity (ROE) by up to 0.5% above (or below) the most recently authorized ROE from the last general rate proceeding, if the all-in average retail rate grew by less than (more than) 1% in the previous calendar year. This ROE adder or penalty would last for 12-months following the issuance of an Order.

Staff of the KCC is neutral towards this change in law and we view this as policy issue that is properly before the Legislature. Ultimately this bill would allow the Legislature to weigh in on the importance of an electric utility limiting the growth in its overall rate level to less than 1% increase per year. We appreciate the flexibility that this proposed bill would allow for the KCC to decide any potential application of this law on a case-by-case basis. However, we do have some concerns that we wish to share with the Committee for your consideration.

1. Utility rates can be somewhat volatile due to capital investments which tend to be "lumpy" in nature, as well as fuel or wholesale power market price fluctuations. This could potentially make for a contested proceeding for an increase or decrease in a utility's authorized ROE a reality in most years.

2. One of the largest individual components of electricity rates is fuel and purchased power costs, which are largely outside of the control of the utility. If changes in these costs caused electric rates to increase or decrease by more than 1% per year, that could potentially allow a utility to experience a bonus ROE, or penalty ROE, based on something that is largely outside of their control.

3. If a utility were to face a 0.5% ROE change either up or down each year based on its overall rate level, that could create uncertainty in the financial markets for investor support of Kansas utility infrastructure. The Legislature's passage of HB 2527 last year did send a signal to the financial markets that Kansas was supportive of additional utility investment in support of reliability and economic development in the State. It will be argued that this

proposed bill will send the opposite signal.

4. We have examined Evergy's all-in electric rates for residential customers going back to 2001, as reported to the Energy Information Administration (EIA). During the period from 2001 to 2023 the all-in electric rate increased or decreased by more than 1% in 15 out of the 22 years in that time frame, or 68% of the time.

5. For the period of 2001 through 2012, Evergy Kansas Central's (EKC's) residential rate increased by a simple average of 3.65% per year, and Evergy Kansas Metro's (EKM's) rate increased by a simple average of 4.16% per year. From 2012 through 2023, EKC's residential rate increased by a simple average of 1.99%, and EKM's residential rate increased by a simple average of 1.47%.

6. If this bill were to become law, an electric utility may elect to file smaller and more frequent rate cases, to try to stay below the 1% annual rate change threshold. Frequent rate cases tend to upset utility customers, even if it does result in a smaller more manageable increases each year. Frequent rate cases can increase overall regulatory expense and also minimizes regulatory lag, which can minimize the incentive that an electric utility has to manage its operating expenses between rate cases.

The data presented in points 4 and 5 above demonstrates that utility rate changes do tend to be larger than 1% per year on average. This also indicates that while average annual rate increases, over the last eleven years, have been less than half of the rate of average annual increases from the previous11 years, a 1% annual rate increase threshold may be an unrealistically low expectation—especially in the current environment of increasing capital expenditures to replace aging infrastructure and to support reliability and economic development in the State.

Thank you for the opportunity to offer Staff's perspective on the proposed bill and the opportunity to appear before your committee.