

Before the Senate Utilities Committee
Presented by Zack Pistora, Kansas Sierra Club
Proponent on SB 437
March 12, 2020



Chairman Masterson and honorable members of the committee,

Thank you for the opportunity to provide testimony in support of SB 437, which authorizes energy securitization, or what I like to call, 'utility asset refinancing'. Utility asset refinancing would allow a utility to submit a proposal to the Kansas Corporation Commission to issue securitized bonds for ratepayers to pay down debt on uneconomic energy assets with lower interest, thus saving ratepayers money. Given the Sierra Club's continued engagement in energy policy, it is important that Kansas lawmakers understand our perspective on the issuing of securitized ratepayer-backed bonds.

The London Economics (LEI) report recommends establishing a legislative framework in Kansas that would allow utilities to use a refinancing method (known as securitization) to refinance old debt with high interest rates to lower interest rates, saving customers money in the process.

LEI highlighted securitization in their report on Page 225:

"a comprehensive and holistic analysis of the potential retirement of generation assets should be undertaken, including savings in fixed Operations and Maintenance and fuel costs, weighted against the cost of replacement services (energy capacity etc)"

Through a process similar to refinancing a home mortgage or student loan, securitization allows utilities to pay down debt, retire coal plants that are no longer economically viable, reduce consumers' rates, and provide funds for projects like worker and community transition and investments in cost-effective clean energy resources.

Because existing coal plants in Kansas are costing ratepayers many millions more in added costs (despite being run at marginal capacity), we need securitization as a ratemaking tool, right now.

In Kansas, on average, Evergy runs its coal plants at less than half of their total capacity. Meanwhile, Kansas ratepayers are paying for more than 100% of the costs of each coal plant (debt on infrastructure, operation, fuel, maintenance, plus a premium rate for coal power compared to wholesale market prices, and the rate of recovery). So, our coal plants have racked up a large tab for ratepayers-- not only for the initial large investment in the plant itself decades ago, but also for the hundreds of millions of dollars of upgrades, retrofits, and replacement parts. Therefore, Kansans are essentially stuck paying for these investments, even while market forces may make these investments uneconomical.

LEI highlights this point on page 11:

2. 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; and

Our analysis, using Evergy's reported numbers, shows that from 2015-2018, Evergy's coal fleet lost Kansas ratepayers \$267 million compared to wholesale market prices (power that could have been bought from the

Southwest Power Pool). Furthermore, Sierra Club projects that over the next 20 years, the La Cygne and Jeffrey plants will cost ratepayers an additional \$847 million relative to market prices or investment in new wind and solar generation.

With securitization as a tool, a utility could upgrade their energy portfolio and strengthen their future rate base, while bringing down electric rates for ratepayers.

Securitization is a voluntary tool, not a mandate. Roughly half of the states have authorizing legislation on refinancing energy assets; most recently, Montana, Colorado, and New Mexico have passed securitization, and Missouri is strongly considering it. Securitization has been used in at least 65 transactions across America, totaling ~\$51 billion, according to the investment group, Saber Partners LLC.

Utility asset refinancing is an opportunity to help the state capture savings for ratepayers by using lower-interest bonds, as well as help utilities transition their energy portfolio and provide a worker and community transition.

- It's worthwhile to emphasize that the state's utilities need to make sure that they're making the right decisions for ratepayers - and are under an obligation to make sure that they're acting competitively. The ratepayer-backed bonds are designed to ensure competitiveness with utilities while not harming investors.
- Securitization legislation should maintain the authority of the Kansas Corporation Commission to grant or deny a financing order and still determine the appropriate amount to be financed. This valuable discretion is maintained in Section 2(h).
- Utility asset refinancing provides a unique way to deliver a stream of revenues to be reinvested for stable, cost-effective energy generation or storage, and thus, future rate bases. But also, securitization could help impacted communities that may be affected by the transition of energy assets. These communities that serve these coal power plants deserve the opportunity to ensure that they can harness new job opportunities and are not adversely impacted by the potential loss of property tax revenues.

We do offer a few ideas for improvement to SB 437:

- 1) We prefer that securitization be used for least-cost generation that is renewable, not fossil-fuel based. Sierra Club feels strongly that for both economic and environmental reasons, that renewables are superior for Kansas.
- 2) We would strike 'and on' in Page 7, line 28, Sec 4. (B)(b)(3), as we do not think the utility needs additional rate recovery 'on the remaining rate base' after securitizing their investment's debt.
- 3) We would suggest that the Kansas Development Finance Authority be involved as the financier of these K-EBRA bonds. K DFA is well-versed in Kansas bonding and could be good to perform this duty.

We encourage this committee to pass SB 437 this year. With securitization, therein lies a special opportunity for our state to allow for a dynamic ratemaking tool and create a significant upshot for Kansans in terms of our electric rates and energy future.

Thank you,

Zack Pistora | Legislative Director and State Lobbyist, Kansas Chapter of Sierra Club
zackpistora@gmail.com | 785-865-6503

The Sierra Club is the largest grassroots environmental organization dedicated to enjoying, exploring, and protecting our great outdoors. The Kansas Chapter represents our state's strongest grassroots voice on environmental matters for over forty years.