



**Testimony of Darrin Ives
Vice President, Regulatory Affairs
For the Senate Utilities Committee
Hearing on SB 437**

Opposed

March 12, 2020

Good afternoon Chairman Masterson and Members of the Committee:

We appreciate this opportunity to explain our views on securitization. Overall, we believe securitization can be an appropriate tool for utilities to have available to them. However, it is not the silver bullet that's often been described. In fact, if used incorrectly, securitization can have negative effects on a utility, its customers and its investors.

Across the country, securitization has been used infrequently and in very defined situations:

- The most common application of securitization is for industry restructuring (deregulation, or the introduction of customer choice electricity suppliers and the associated spin-off of formerly regulated electric generating units). As of 2019, it had been used, or utilities had been given authorization to use it, in approximately 14 states.
- The second, most common application of securitization is in the aftermath of catastrophic storms, such as hurricanes, where a few utilities have been given authorization for its use in several states.
- In a few states, securitization has been used to fund some level of environmental upgrades.
- In a couple of states, utilities have been given the ability to use securitization for recovery of unrecovered plant balance due to reasons other than re-structuring.

SB 437 proposes to use securitization for three specific purposes: (1) to facilitate the retirement of certain legacy electrical facilities, including coal-generating units; (2) to fund re-training and workforce development for employees displaced by retirement of

legacy generation facilities as well as to provide transition support for communities impacted by those retirements; and (3) to fund construction or acquisition of new cost-effective electrical facilities such as least-cost renewable generation facilities and other clean supply- and demand-side resources. These last two purposes are not common uses of securitization and, in particular, the suggested use for least-cost renewables modifies the traditional regulatory compact for regulated utilities in Kansas and investor opportunity to invest in and earn a return on such investments.

Additionally, Evergy has proven that it does not need securitization to close coal plants and invest in renewable energy. Since 2007, Evergy has eliminated more than 2,500MW of fossil fuel-based generation. We recently announced that by 2050 we would retire the remainder of our coal fleet in Kansas at the end of each unit's useful life. We also announced we will be adding an additional 660 MW of wind generation, making us one of the largest wind energy companies in the country. This is in a state that is already ranked third in terms of wind energy production.

Additionally, as my colleague Mr. Caisley previously testified to using an automobile analogy, securitization done poorly can actually *cost* customers money. In fact, the LEI rate study examined how the costs to customers would differ between one scenario, in which Jeffrey Energy Center is retired at the end of its useful life, and another scenario, in which the plant is retired early and a bond is issued. The analysis found that the debt repayment in the securitization scenario would cost customers \$82 million more than the costs in the scenario in which the plant continues to operate.

It is also important to note that securitization, if used incorrectly, could threaten the financial health of a utility. Investors have provided capital to Kansas utilities based on the reasonable expectation that the utilities will receive both a return on, and a return of, that capital, consistent with historical practices. If securitization is to be an option, it must preserve the utility's ability to receive a return on those generating facilities while still providing a net benefit to customers.

We think it's important that we get the language right on securitization. In our view, SB 437 misses the mark. However, we do believe there could be value in the future to having securitization as an option. We are currently working with NRDC in both Missouri and Kansas to find language that accomplishes this goal. We look forward to exploring this issue in more detail, but agree with LEI's assessment that "there are tradeoffs that regulators, electric utilities, and ratepayers should consider before committing to securitization."