

Before the Senate Utilities Committee
Presented by Zack Pistora, Kansas Sierra Club
Proponent Testimony on SB 198
March 12, 2019



Chairman Masterson and honorable members of the committee,

Thank you for the opportunity to provide testimony in support of SB 198 that allows financing electric generation facilities by authorizing the issuance of K-EBRA bonds. We brought forth this idea during our earlier discussion of solutions regarding Kansas' high electric rates. Over 20 states across the country have utilized this type of utility asset refinancing to reconcile stranded assets/ sunken costs of power facilities that are no longer economical.

With the economics of U.S. energy sector continuing to change, SB 198 represents an opportunity to allow electric utilities a tool to refinance their assets in a way that makes economic sense, both for their customer ratepayers and shareholders.

Under traditional rate regulation, utilities get reimbursed for all the fuel and maintenance -- what we call "pass through costs" -- and make a profit on any capital they invest in on behalf of their customers, such as new transmission lines or new boilers at a coal plant. In fact, that's the primary way a utility makes money -- charging a "rate of return" on every investment. What it amounts to is that many power plants have racked up a huge amount of debt -- not only the first investment in the plant itself 40 years ago, but also hundreds of millions of dollars of upgrades, retrofits, and replacement parts. So, we're left with a debt problem when we want to retire this plant and move to more cost-saving energy projects.

By providing the KCC with the authority to allow public utilities the ability to refinance their capital using ratepayer-backed bonds when retiring or transitioning their power-generating assets, utilities can quickly bring down their rates. With ratepayer-backed bonds, utilities can acquire top credit rated bonds and thus, receive a low-interest payback schedule compared to traditional rates from private lending market. Therefore, with better financing, utilities are able drop rates right away and reinvest their depreciated costs into new cost-saving energy projects. SB 198 is a pathway for dealing with the undepreciated balance of coal plants, provide for full cost recovery and new investment (that utilities / shareholders like), and serves as a worker and community transition too.

- The proposed bill offers a *voluntary* opportunity to help utilities refinance their assets and realize savings for consumers. It is important to realize that **securitization is a tool, not a mandate**.
- SB 198 provides a unique way to deliver a stream of revenues via the "transition assistance" to impacted communities that would otherwise not be available - either through the commission or the utility itself. The communities that serve these 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.
- **SB 198, and the resulting securitization bonds, represents a new element of flexibility in electric utility regulation.** As fuel prices and energy economics change course over time, this legislation gives the Commission and utilities a functional way to change course. SB 198 maintains the KCC retain the authority to grant or deny a financing order and they still determine the appropriate amount to be financed.
- State's utilities need to make sure that their making the right decisions for ratepayers - and are under an obligation to make sure that they are acting competitively. The ratepayer backed bonds are designed to ensure that they can act competitively while not harming their investors.

It is of vital importance for the Legislature to provide thoughtful direction and policy authority to the KCC to prioritize a commitment to Kansas ratepayers, and give utilities an extra tool to tackle this problem. SB 198 represents a special opportunity for our state leaders to create a significant upshot for Kansans in terms of our electric rates and energy future.

Thank you,

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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.