

Before the Senate Financial Institutions and Insurance Committee  
Presented by Zack Pistora, Kansas Sierra Club  
Proponent on SB 245  
February 18, 2021



Chairman Longbine and honorable members of the committee,

Thank you for the opportunity to provide testimony in support of SB 245, known as the GRID Act, which authorizes energy securitization or what we like to call, 'utility asset refinancing'. The Kansas Chapter of Sierra Club has supported similar legislation in the past two years, and we are excited about the prospects of this legislation. SB 245 would allow an investor-owned utility like Evergy to submit an application to the Kansas Corporation Commission to issue 'energy transition bonds' to securitize debt on uneconomic energy assets.

**If the Legislature is seeking a golden piece of legislation that holds significant promise to 1) lower Kansans' electric rates, 2) enhance our electrical system for decades to come, and 3) capitalize on our homegrown, clean energy resources to save costs, benefit our environment, and boost our economy; securitization legislation is it.**

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 investments in cost-effective clean energy resources as well as worker and community transition.

Securitized ratepayer-backed bonds allow the utility to access lower-cost capital to refinance expensive powerplants to replace generation with lower-cost energy resources. For ratepayers, securitization lets ratepayers swap out the initial high return on capital in exchange for the lower-interest bonds, immediately achieving the opportunity for immediate payback savings.

**In other words, with securitization as a tool, a utility could upgrade their energy portfolio, strengthen their future rate base, all 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.

**The London Economics (LEI) report includes securitization as one of their top recommendations to help make electric rates more competitive.**

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)"*

**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.

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. This is a heavy price for Kansans to pay when we could be moving our energy infrastructure to meet the demands of the 21<sup>st</sup> century.

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 to consider improving SB 245:**

- 1) We prefer that securitization be *required* to use lowest lifetime cost generation and must generate ratepayer savings. SB 245 guarantees a quantifiable net benefit to rate payers on page 7, subsection (3) lines 20-28: "energy transition bonds... are expected to provide net quantifiable benefits to customers as compared to traditional methods of financing... **or** that would avoid or mitigate rate impacts to customers." We would suggest changing language such 'or' to 'and' in these instances to guarantee some level of ratepayer savings.
- 2) We expect those investments to be renewable, clean energy solutions, not fossil-fuel based. Uses of the savings for reinvestment should be expanded from generation recovery and replacement, to include energy conservation, transition assistance, necessary grid improvements, storm recovery, and affordable energy storage. Sierra Club feels strongly that for both economic and environmental reasons, that clean energy solutions are superior for Kansas.
- 3) We would suggest that the Kansas Development Finance Authority be engaged in the acquisition and supervision of these bonds. KDFA is well-versed in Kansas bonding and could be good to perform this duty.

**We encourage this committee to pass SB 245 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,

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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.*