

Testimony of Kansas Industrial Consumers Group
In Support of SB 437
Before the Senate Utilities Committee
March 12, 2020

Kansas Industrial Consumers Group (KIC) applauds the committee for reviewing another issue that may help the State move toward regionally competitive electric rates. SB 437, establishing the needed framework for securitization, may be a tool that can assist Kansas investor-owned utilities in providing rate relief and has KIC's support.

Securitization is simply a voluntary financing tool that can help utilities transition away from underutilized assets that may be a drag on consumer rates. The financial tool should be available to finance large, unplanned expenditures, such as storm damage, or to simply lower the cost of any utility asset. Section 15 may need to be adjusted to accomplish that goal and we look forward to working with stakeholders to address that and any other issues. The attached fact sheet helps explain how the tool works.

London Economics evaluated securitization in the rate study and presented a favorable view. In particular, it noted securitization could be a tool to deal with the challenge of underutilized assets.

There's the potential to use securitization to remove several items from Evergy's rate base that customers are paying for but are not receiving value for. For instance, customers are paying Evergy a return of, and a return on, several unused or retired assets, including:

- Tecumseh generation station
- Gordon Evans generation station
- Murray Gill generation station
- Various analog electric meters

Refinancing or eliminating these costs through securitization would have zero impact on reliability or service.

One area where KIC differs from others in its support for securitization concerns what should be done with excess proceeds from securitization (after debts are paid). KIC believes the chief outcome should be rate relief and any additional investments, if needed, should be identified through an Integrated Resources Plan process.

Understanding the process to complete a securitization transaction may be 1-2 years, KIC encourages the passage of SB 437 as soon as possible.

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Securitization can help in Kansas

What is Securitization

Securitization is simply a voluntary financing tool. It's also referred to as "utility asset refinancing" or "ratepayer-backed bonds." Whatever you call it, the intent is **to remove and/or refinance costly, and potentially underutilized, utility assets from the electric system**, and *put utilities in a position to transition to cleaner and more modern energy assets*. If everything works as planned, customer rates should go down too.

Twenty-four states have authorized the use of securitization or ratepayer-backed bonds, and more are considering it.

Why & How

Investor-owned utilities earn money on their investments in power plants, poles, wires, and other capital equipment. Collectively these investments make up a utility's "rate base." Utilities earn a return on their rate base that includes their cost of capital, paid for by customers. If you can reduce the capital cost and/or remove assets from rate base, rates will go down.

The process of securitization would identify a utility asset (usually a power plant). Bonds would be sold to pay off the utility's unrecovered capital costs, removing the asset from rate base. The bond holders would be repaid from a line-item charge on bills (ratepayer-backed bonds.) It works because instead of customers paying the utility's cost of capital, the bonds would have much lower interest rates.

A portion of the bond proceeds given to the utility to retire assets could be reinvested in new assets the utility needs for reliability. Usually this will be investments in advanced energy items like renewables, storage, grid updates or energy efficiency. But one of the goals is always to save customers money through the process. Legislators need to authorize the use of securitization.

Will it work in all situations? Maybe not. But it's a useful tool to have available.

