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Testimony of Kansas Electric Cooperatives, Inc.

HB 2127

March 13, 2007

Mr. Chairman and members of the committee my name is Stuart Lowry. I am Executive Vice President/General Counsel of Kansas Electric Cooperatives, Inc., the statewide association of thirty electric cooperatives. I am testifying today in opposition to HB 2127, specifically those portions of HB 2127 that would expand the renewable generation units eligible for the enhanced purchase rate for excess generation under KSA 66-1,184.

You have no doubt read and heard much about the development of wind energy in Kansas, including recent announcements by Sunflower and Midwest Energy of cooperative wind energy purchases. By the end of the year, Sunflower will have more than 10% and Midwest nearly 8% of their energy from utility-scale wind farms. HB 2127 addresses a different type of wind energy development. KSA 66-1,184 is the state statute that enhances the purchase rate a utility pays to renewable generators interconnecting under the Public Utilities Regulatory Policies Act of 1978 (PURPA). Parallel generation occurs when a utility customer installs generation equipment to meet the customer's own electrical needs. Under the statute, the customer may interconnect the renewable generator with the electric utility and generation in excess of that needed by the customer is sold to the utility. The statutory provisions regarding the interconnection and purchase of excess generation are consistent with federal law in all material respects except for one. Federal law requires the utility to pay the interconnecting generator for the excess generation placed back on the utility grid at a rate equal to the energy costs avoided by the utility, and under Kansas law the utility pays certain interconnecting generators 150% of the energy costs avoided. This enhanced purchase rate applies to residential customers with renewable generation

with a capacity of 25 kW or less and commercial customers with renewable generation with a capacity of 100 kW or less. The additional 50% above the avoided energy cost is a subsidy or incentive payment that was added to the parallel generation statute in 2001 and was meant to serve as an incentive for the installation of small customer-owned distributed generation.

HB 2127 would expand the scope of generators eligible for the subsidy or incentive payment to include renewable generators up to 1.5 MW in size when installed by any community college, technical school, vocational school, or educational institution. The increase in the size of the generator increases the potential subsidy payment when excess generation is purchased by the utility. It is difficult to measure the precise financial impact caused by interconnecting larger units without knowing a) the capacity factor of the interconnecting generator, b) how much of the generation will be used by the customer and how much would be sold to the utility, and c) the future avoided energy costs. Some reasonable calculations suggest that the changes proposed by the bill could possibly cause the interconnecting utility to pay nearly \$60,000 in subsidy payments.

The electric cooperatives understand and support the efforts of the State of Kansas to incent and encourage renewable generation and the statewide goal of increasing the amount of renewable generation. We believe that a subsidy payment or incentive is an appropriate way to achieve this statewide goal and that the subsidy should be funded by all beneficiaries. **Therefore, we object to the subsidy or incentive being funded solely by ratepayers of the utility to which a renewable generator happens to interconnect. Instead we believe that the subsidy should be funded by the State as a whole, since the installation of the renewable generation is in furtherance of a statewide goal.**

The existing state law requires a utility funded subsidy for small customer owned generation. The expansion of the law to larger renewable installations could result in a significant cost to the interconnecting utility, which costs would be born solely by the remaining customers of that utility rather than the state as a whole. For that reason we oppose HB 2127.