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Before the Senate Utilities Committee
February 6, 2018

Opposition Testimony
On Senate Bill 347

Submitted by Jeff McClanahan, Director, Utilities Division
On Behalf of
The Staff of the Kansas Corporation Commission

Chair Olson, Vice Chair Petersen, Ranking Minority Member Hawk, and members of the committee, thank you for the opportunity to provide testimony to your committee today on behalf of the staff of the Kansas Corporation Commission (Commission).

The Commission Staff is primarily opposed to SB 347 because:

- It mandates energy efficiency goals regardless of whether cost effective energy efficiency (EE) programs can be developed; and

- It would require the use of a benefit-cost manual that conflicts with Commission policy

The energy efficiency savings goals in Section 1(b)(1) and (2) effectively mandate an annual 1% reduction in energy usage through energy efficiency for electric public utilities and an annual 0.75% reduction in natural gas usage through energy efficiency for natural gas public utilities. These requirements are arbitrary and unsuitable for Kansas Investor Owned Utilities (IOU) for the following reasons:

➢ Kansas Electric IOUs face stagnant growth and excess generation capacity in the Southwest Power Pool, which has placed downward pressure on the cost of capacity. And with a low avoided cost of capacity, energy efficiency programs have a difficult time passing any benefit-cost test. Reducing electric usage by 1% each year would, in the subsequent rate cases, spread fixed costs over fewer kilowatt-hours, thus increasing rates.

➢ Natural Gas IOUs have faced declined customer usage since the mid-1980s; have for nearly a decade faced low natural gas prices; and are not vertically integrated, which seriously limits their potential avoided costs. Even with the currently low natural gas prices, reducing natural gas usage would drive up rates.

➢ Since there is no sunset provision on the savings mandates, Kansas IOUs would face the requirement to increase savings by 1% and 0.75% every year in perpetuity regardless of whether energy efficiency programs that pass a benefit-cost test can be identified.

- The proposed energy efficiency goals increase rates for both electric and gas utilities and are in direct conflict with SB 356, which seeks to mandate lower electric and natural gas rates in Kansas.

The Commission has expended a great deal of time and effort over the years analyzing and determining energy efficiency policy through numerous dockets. In fact, the Commission recently completed an energy efficiency docket and reaffirmed several of its previous benefit-cost policies.[1] In particular, the Commission reaffirmed that it would place emphasis on two particular benefit-cost tests (Ratepayer Impact Measure (RIM) and Total Resource Cost (TRC)) because these tests provide information regarding the Commission's two primary goals for demand-side management: reduce future construction of capacity and moderate rate increases.

The benefit-cost manual mandated by SB 347, *National Standard Practice Manual*, argues for one cost-effectiveness test, called a Resource Value Test (RVT). However, the RVT can encompass a number of primary tests and secondary tests to derive the RVT. Therefore, it appears as if SB 347 will require the Commission to expend its time and resources to analyze and review its energy efficiency policies yet again to determine the appropriate primary and secondary tests that should be used to evaluate EE programs.

The manual is also critical of the RIM test the Commission uses to estimate the impact of the demand-side management programs on customer rates and non-participant customer bills.[2] Specifically, the manual notes:

> Those customers that participate in an efficiency program will typically experience lower bills, while those that do not participate may experience higher rates and therefore higher bills. Therefore, the rate impacts of EE resources are not a matter of cost-effectiveness. Instead, they are a matter of customer equity; between customers who participate in efficiency programs and those who do not.[3]

Staff notes that the Commission is concerned with moderating bill increases for all customers, not just customers who participate in demand-side programs as demonstrated by the Commission's emphasis on the RIM test results.

Staff's other issues with SB 347 are as follows:

- Section 1(c)(1)(B): If a utility withdraws its demand-side management plan after the Commission's ruling, then besides explaining why it is withdrawing, it must provide "an alternative proposal that is projected to save an equivalent amount of energy." Cost-effective energy efficiency programs are difficult to develop. Having an equivalent Plan B on hand seems to be an extraordinary demand on an electric or natural gas utility. As noted in the first part of this testimony, the bill's goals are effectively mandates, and as such, it seems contradictory for utilities to be allowed to withdraw approved programs.

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[1] "[T]he Commission shall continue to place primary emphasis on the TRC [Total Resource Cost] and RIM [Ratepayer Impact Measure] tests because these tests provide information particularly relevant to KEEIA's and the Commission's shared policy objectives." Final Order, Docket No. 16-KCPE-446-TAR, June 22, 2017, ¶ 134.

[2] ***National Standard Practice Manual***, pp. 122-123.

[3] *Ibid*, p. 123.

- Section 1(c)(2)(A) and (B): The timeline for the performance incentives listed in this section seems to ignore the time necessary for evaluation, measurement and verification studies (six months) and their review by Staff, CURB, and other interveners (one to three months).

- Section 1(d)(3): Currently costs and benefits of demand-side programs are allocated to the customer class that the programs serve. It is unclear what it means to allocate costs on a time of use basis since demand-side costs are independent of when energy is used. Allocating benefits based on time of use would require a time of use baseline and it is not clear how such a baseline could be calculated on a time of use basis.

Thank you for the opportunity to offer our perspective on the proposed bill and the opportunity to appear before your committee.