

The Kentucky Public Service Commission: Overview & Issues

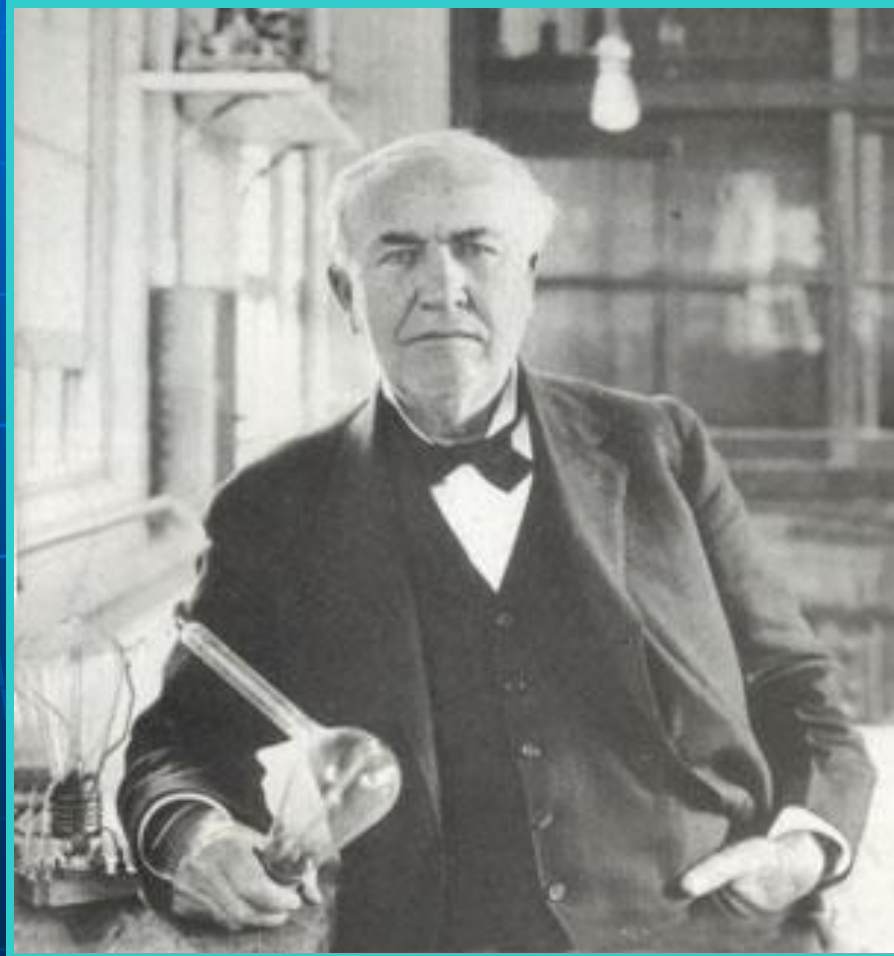
Jim Gardner, Vice Chairman
Jeff Derouen, Executive Director
Aaron Greenwell, Deputy Executive Director
Kentucky Public Service Commission

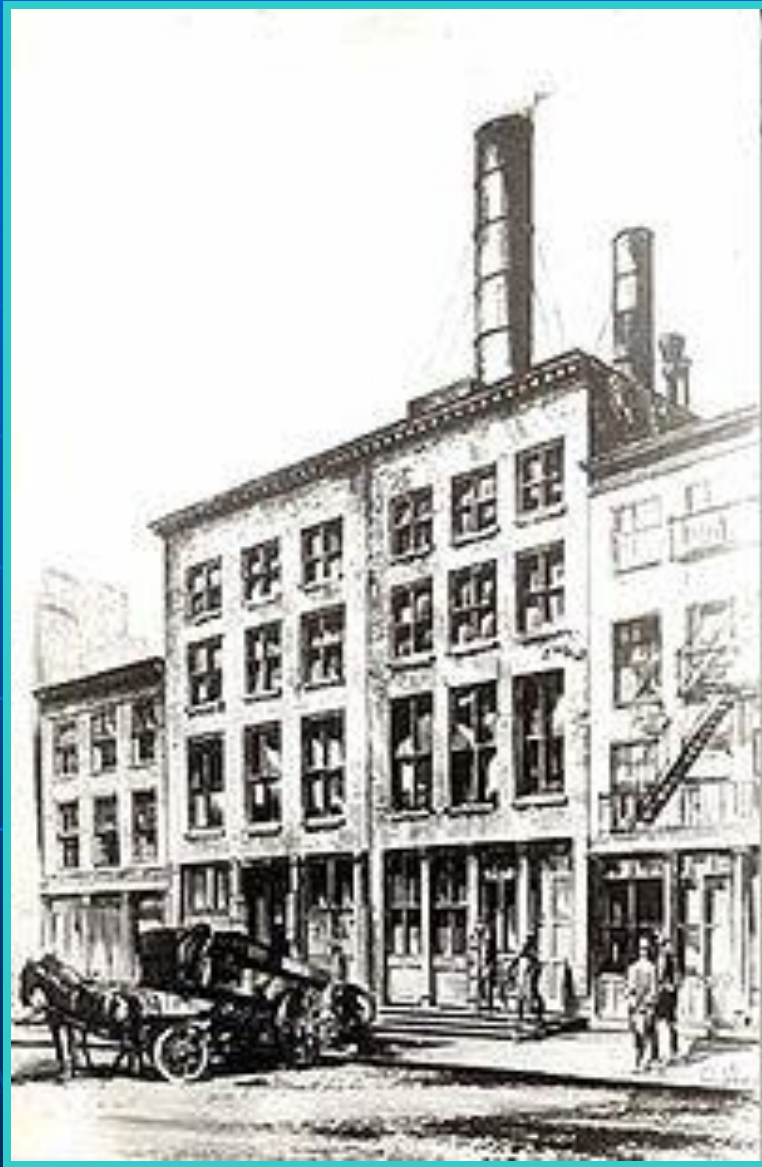
Presentation to the
Kentucky Energy Management Conference

December 11, 2012



In the beginning.....





What Thomas Edison did do, however, was see the big picture. Edison was the first person to make both the bulb and the generator commercially viable, combine them, and demonstrate the enormous benefits of large-scale electrification. His was the genius that was able to put the puzzle pieces together to make the whole system work.

The Economist, 1999

PEARL STREET STATION



Casa Loma, Toronto



Major-General Sir Henry Mill Pellatt, C.V.O.

Regulating essential monopolies: the regulatory compact

Regulatory commissions were first established to oversee transportation monopolies

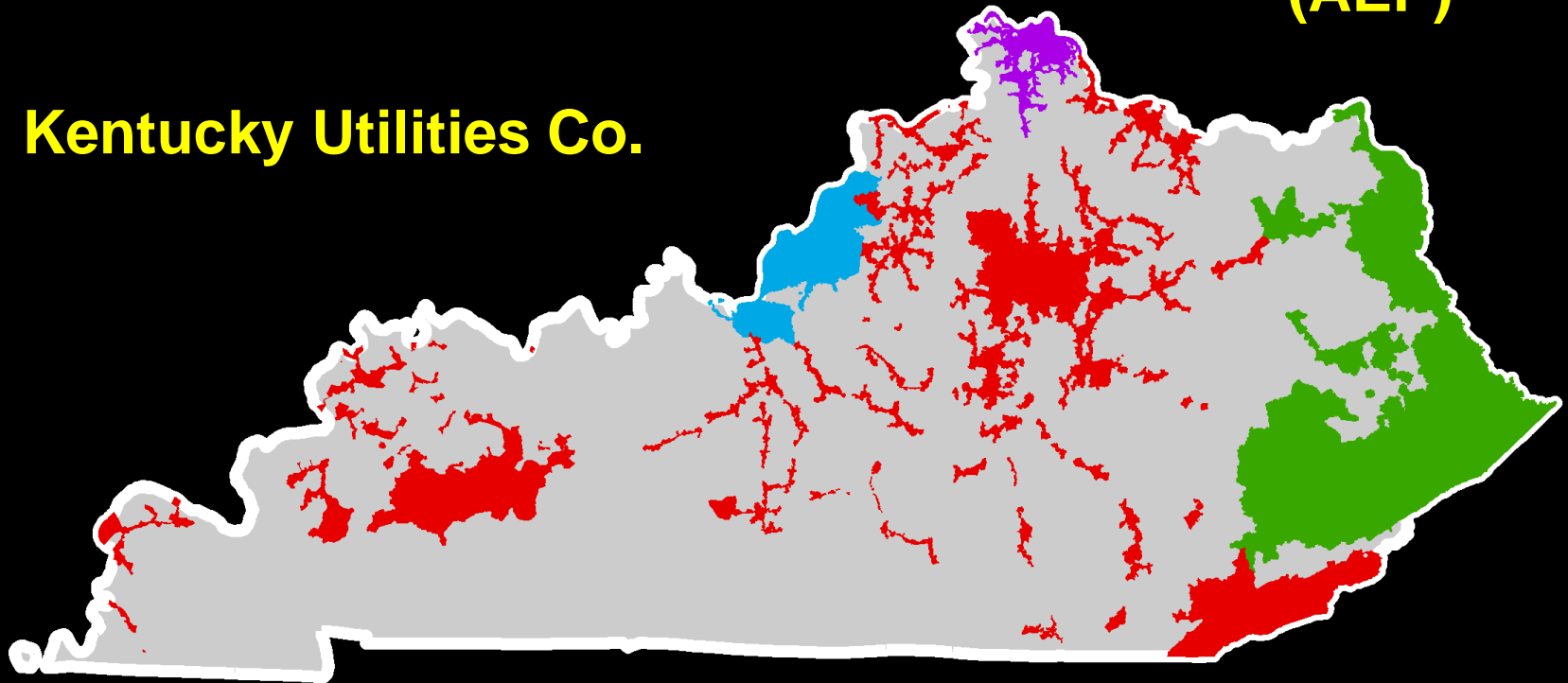
- Rhode Island – 1839
- Massachusetts – 1861
- 20 states before 1900
- Kentucky was a relative latecomer (1934)

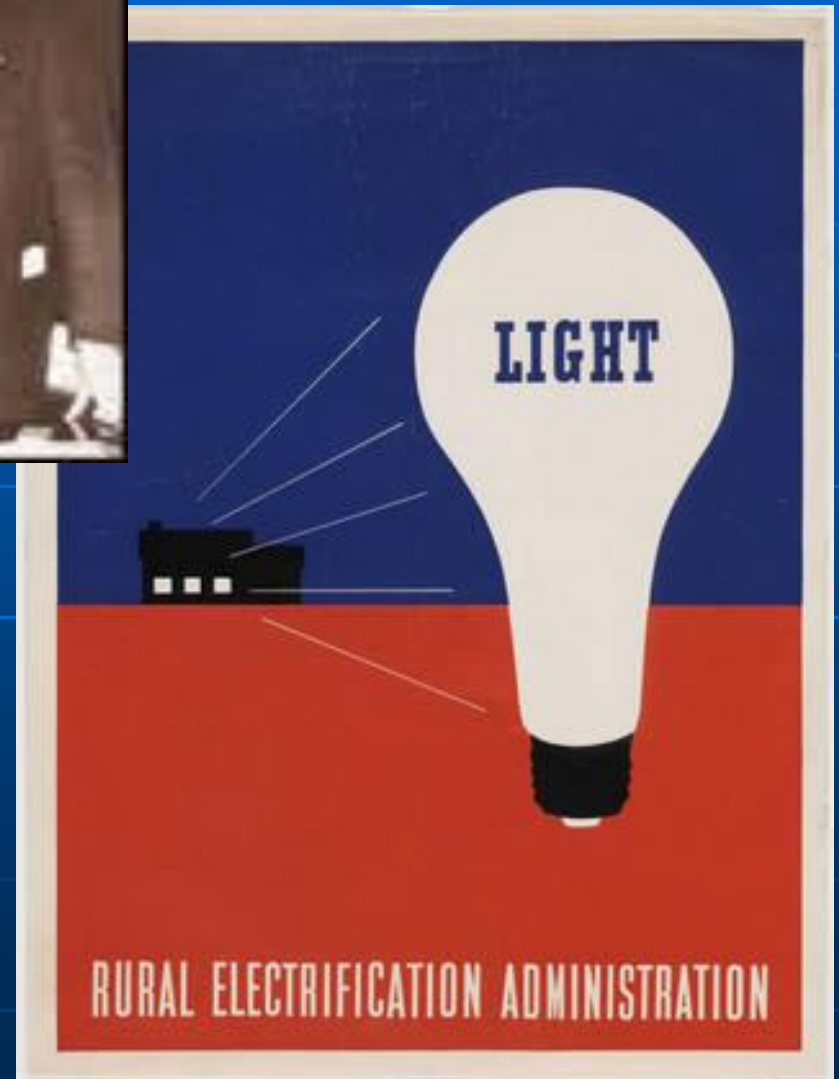
Investor-owned utilities – picking the low-hanging fruit

**Louisville Gas & Electric Co.
– Duke Energy Kentucky**

**Kentucky
Power Co.
(AEP)**

Kentucky Utilities Co.



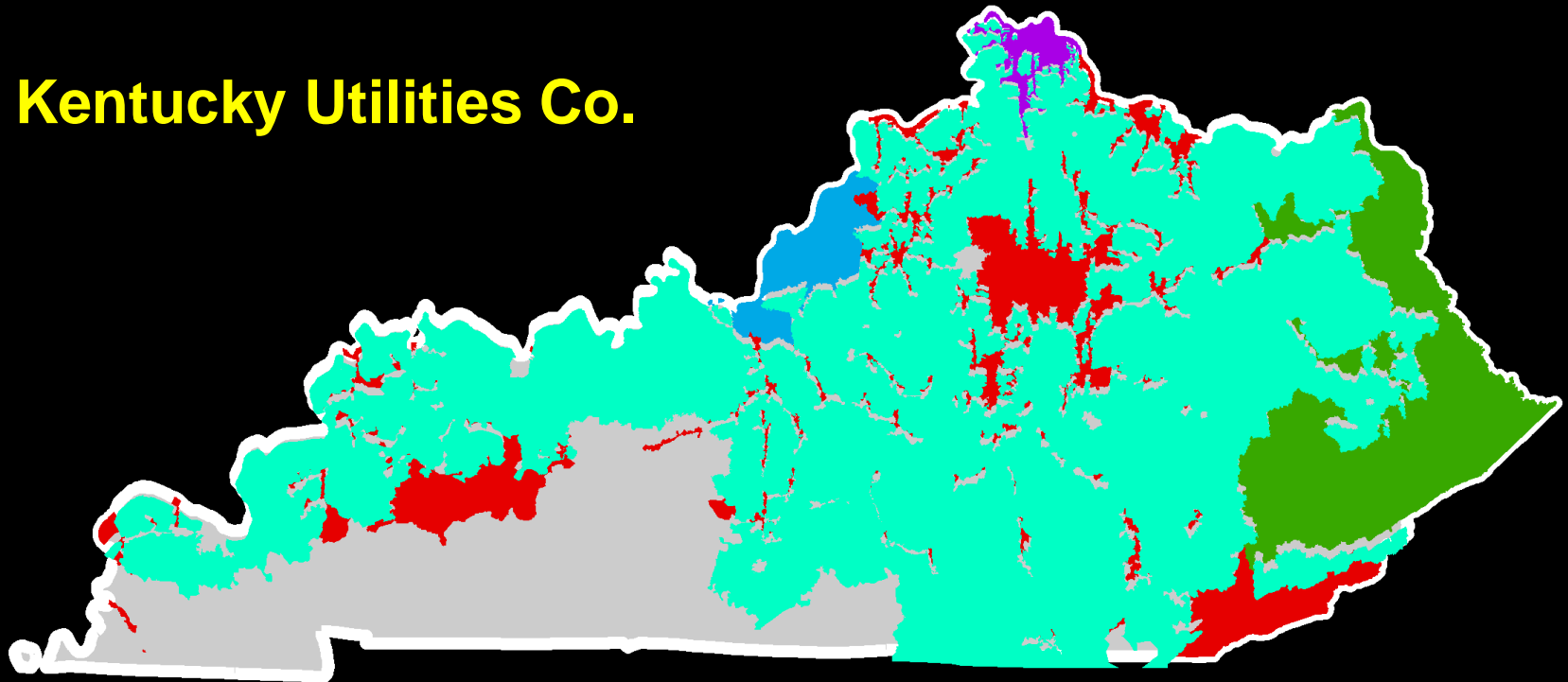


RECCs - filling in the gaps

Louisville Gas & Electric Co.
– Duke Energy Kentucky

Kentucky Power
Co. (AEP)

Kentucky Utilities Co.



Jurisdictional rural electric cooperatives

Electric Distribution Service Areas

PSC Regulated Rural Electric Utilities

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy Cooperative
- Jackson Energy Cooperative
- Jackson Purchase Energy Corporation
- Kenergy Corporation
- Licking Valley RECC
- Meade County RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky RECC
- Taylor County RECC

PSC Regulated Investor Owned Utilities

- American Electric Power (AEP)
- Duke Energy Kentucky, Inc.
- Kentucky Utilities Company (KU)
- Louisville Gas and Electric Company (LG&E)

TVA Regulated Utilities

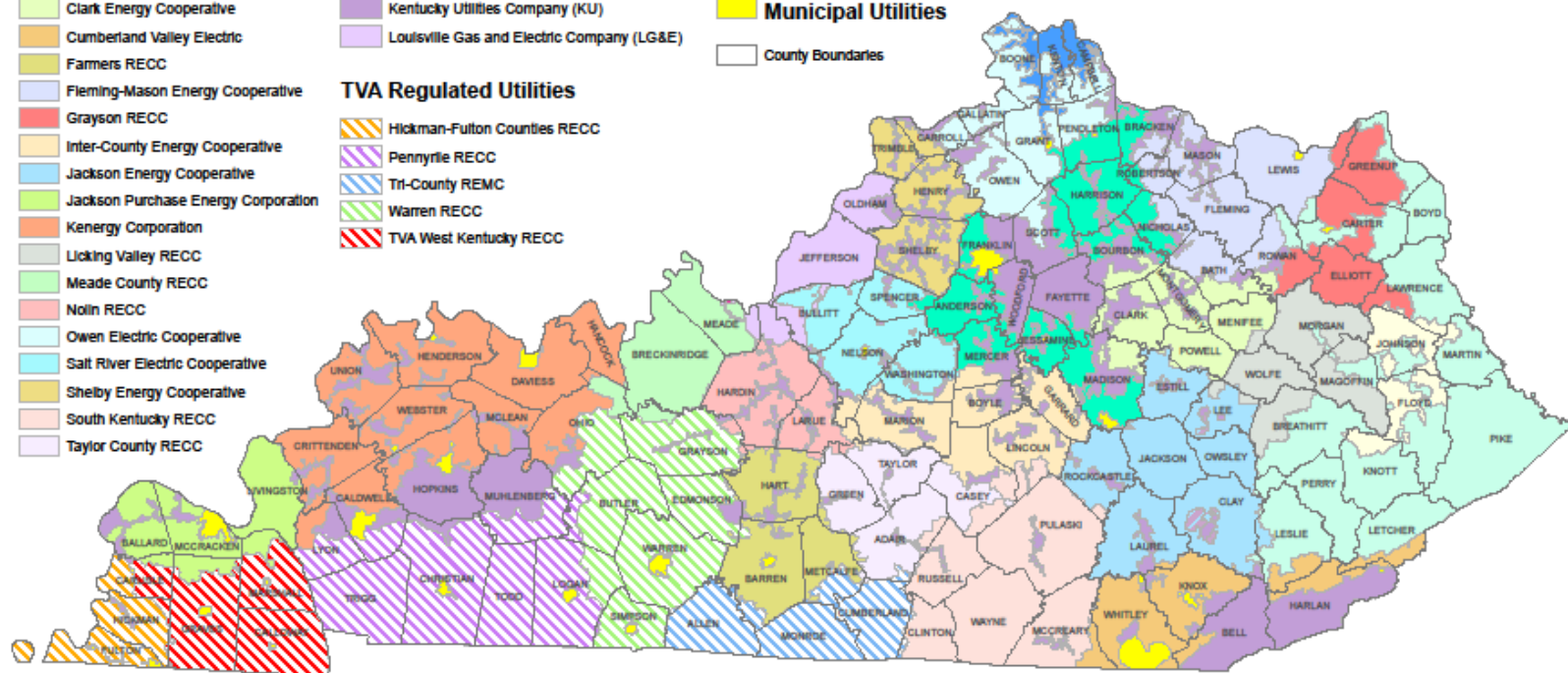
- Hickman-Fulton Counties RECC
- Pennyrile RECC
- Tri-County REMC
- Warren RECC
- TVA West Kentucky RECC

Multi-Service Areas

- Jackson Energy Cooperative & KU
- Meade County RECC & LG&E

Municipal Utilities

- County Boundaries



Kentucky has 30 municipal systems serving over 300,000 customers. Twelve of these are provided wholesale power by the Tennessee Valley Authority (TVA) and are regulated by them. The others are self-regulated by the municipality. The boundaries for the municipal systems were either derived from the Public Service Commission's certified territory maps, or from boundaries submitted for informational purposes to the PSC from the municipalities. If the municipal service area boundaries were unknown, a circle was placed around the urbanized area.

The electric service areas are compiled from certified territory maps on file with the Public Service Commission. These are legal documents which define the retail service area of electric suppliers regulated by the Commission (Kentucky Statute 278.017). The legal certified territory boundaries are drafted on 1:24,000 USGS topographic maps, and can be assumed to have an accuracy of 100 feet. This map, which was compiled from the data, is for informational purposes only, and has no legal standing.



Kentucky Public Service Commission
July 14, 2009

The Kentucky Public Service Commission

- Created by the Kentucky General Assembly in 1934
- Independent regulatory agency
- Quasi-judicial function
- PSC does not set energy policy or broad utility regulatory policies
- Operates in accordance with statutes, regulations and judicial precedent
- Funded by assessment on regulated utilities

The Kentucky Public Service Commission

- Regulates rates and service of following intrastate utilities:
 - Natural gas distribution systems and intrastate transmission pipelines
 - Telecommunications
 - Electric
 - Sewer
 - Water
- About 1,550 regulated utilities

Non-Jurisdictional Utilities

- Municipally-owned utilities
- Electric utilities that purchase power from the Tennessee Valley Authority
- Sanitation (sewer) districts
- Propane gas
- Cable or satellite television service
- Railroads, trucking companies, taxicab or bus companies

PSC Mission Statement

To ensure that utility rates are fair,
just, and reasonable for the
services provided and that those
services are adequate, efficient,
and reasonable.

Organization

Three Commissioners – appointed by Governor, confirmed by Senate – four-year overlapping terms

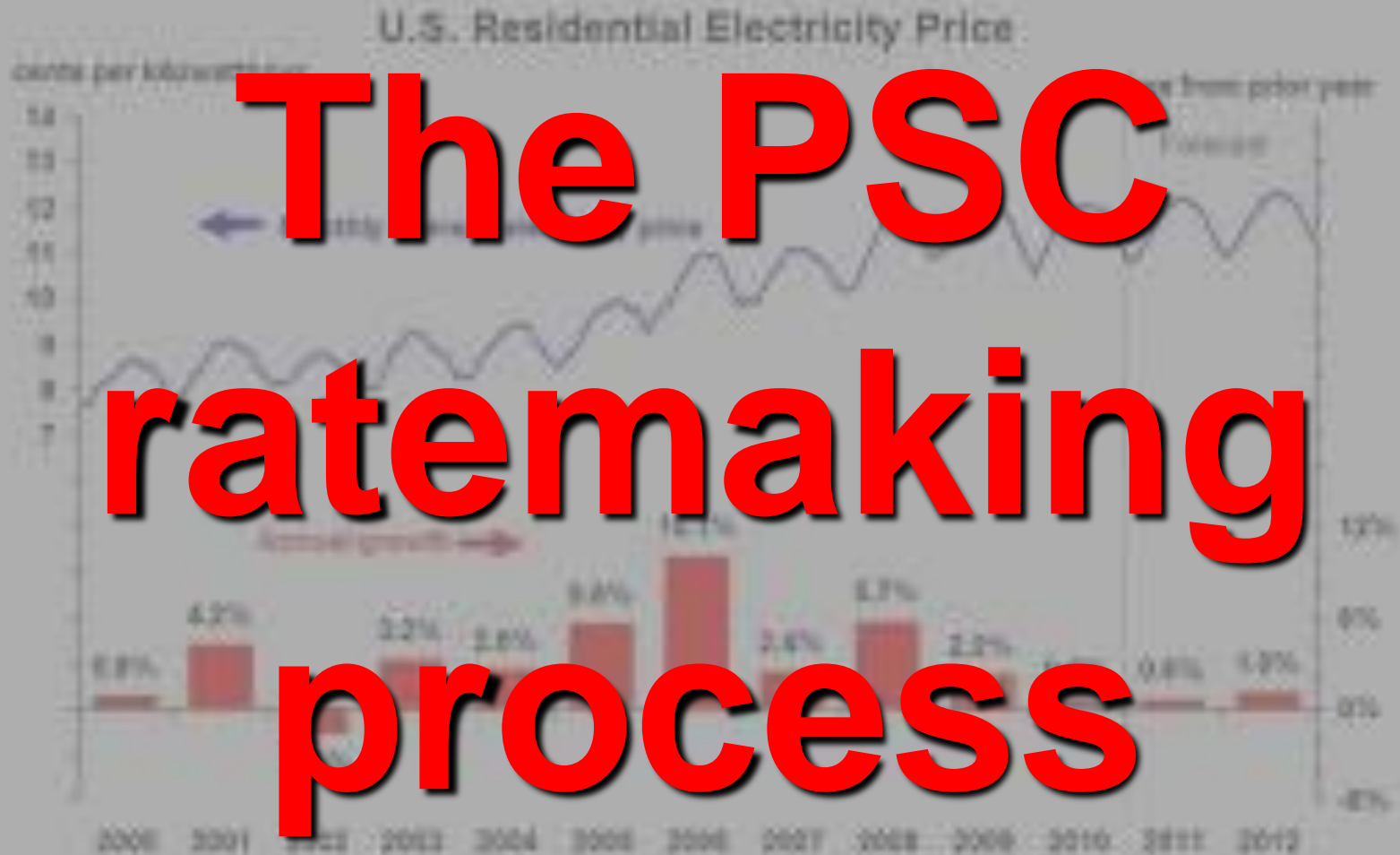
Five divisions (about 95 total employees)

- General Counsel
- Financial Analysis
- Engineering
- Filings
- Consumer Services

Case Statistics

- Cases opened in 2011 – 523
- Cases filed in 2012 (as of November 26) – 508
- Average about 20 orders per week

The PSC ratemaking process



The PSC ratemaking process

Governed by statute – KRS 278

- Rates must be “fair, just and reasonable”
- Investors are entitled to an opportunity to earn a return on equity

Intervenors

- Kentucky Office of Attorney General has statutory right to intervene to represent ratepayers in general

Settlements

- Must be unanimous – all full intervenors agree

The PSC ratemaking process

Revenue requirement

- Calculated over a “test year” that most often uses actual numbers from a previous 12-month period, but may also be forecasted
- Certain expenses are not allowed – promotional advertising, executive bonuses, etc.
- Unusual or one-time costs or revenue are excluded
- Final revenue requirement is based on a company’s allowable expenses – operations and maintenance, capital costs, etc – and the opportunity to earn a reasonable rate of return

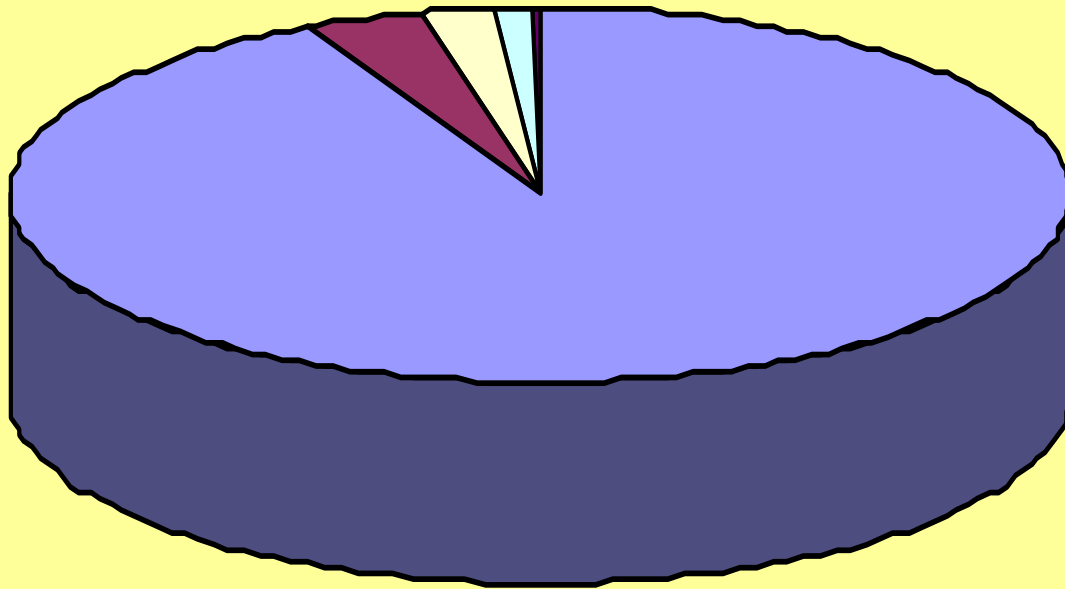
The PSC ratemaking process

Rate design

- Allocates revenue over various rate classes – residential, commercial, industrial, etc.
- As part of rate application, utilities must submit a “cost of service” study that determines how much it costs to serve each rate class
- PSC uses cost of service study as a guideline, but rates are not rigidly set to reflect costs
- Some rebalancing of costs and rates typically occurs in every rate case

**Reliance on coal has led to
consistently low prices for
electricity in Kentucky**

Kentucky Actual Electric Generation by Fuel - 2011



Coal – 94.7%

Kentucky electric costs:

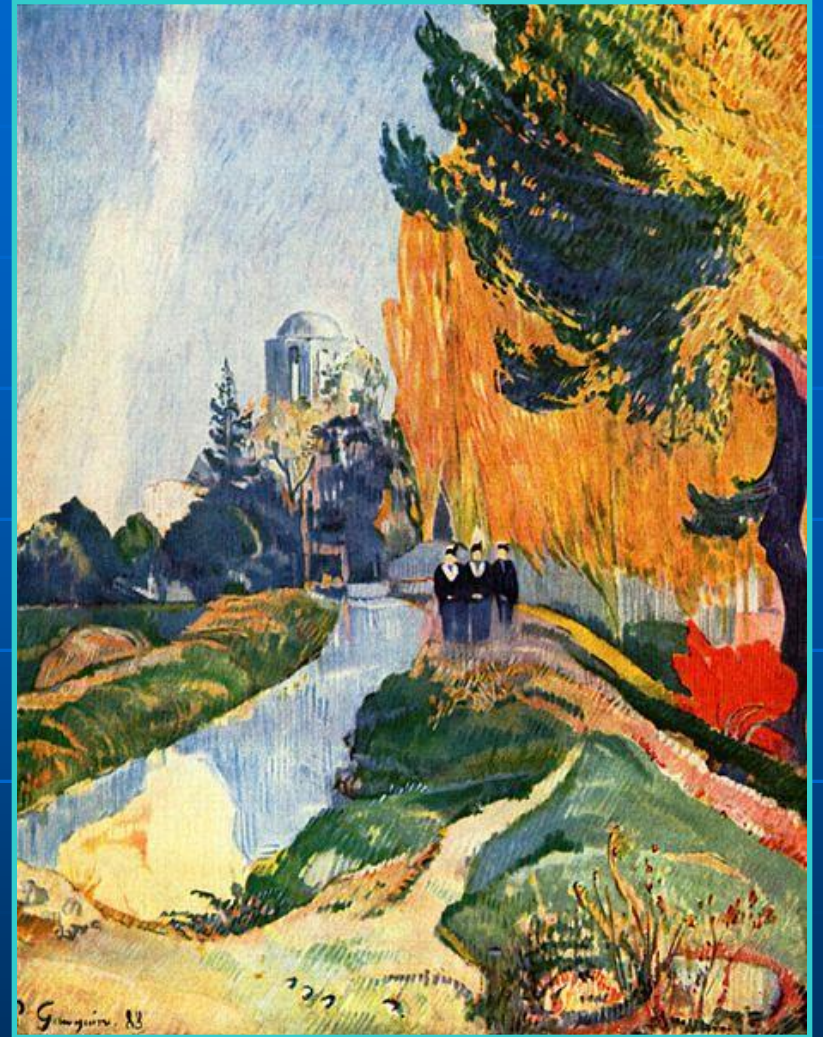
(through September 2012)

- ❑ “all-in” price – all sectors –
7.25 cents per kwh (4/51)
national average = 9.93 cents/kwh
- ❑ “all-in” residential price
9.31 cents per kwh (6/51)
national average = 11.91 cents/kwh
- ❑ “all-in” industrial price
5.41 cents per kwh (6/51)
national average = 6.74 cents/kwh

**Rapid change
underway in the coal,
natural gas and electric
power industries**



Van Gogh



Gauguin



Reality: les Alyscamps, Arles, France

Key issues going forward

- ☐ Future of electric generation
EPA, RTOs,FERC, NERC, etc.
- ☐ Smart grid
- ☐ Aging infrastructure – all sectors
- ☐ Cybersecurity
- ☐ Energy efficiency

Questions?