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NEWS RELEASE

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PSC Bars $54 Million in Kentucky Power Fuel Cost Recovery

Utility ordered to credit ratepayers $13 million in charges already collected

FRANKFORT, Ky. (Jan. 22, 2015) – The Kentucky Public Service Commission (PSC) has prohibited Kentucky Power Co. from charging its customers about $54 million in fuel costs deemed to be unreasonable by the PSC.

In an order issued today, the PSC directed Kentucky Power to refund, through a credit on future bills, $13 million in fuel costs that it collected during the first four months of last year. Kentucky Power also must either refund or forego collection of an estimated $41 million in additional fuel costs that was to be collected through the end of May 2015.

The order also criticized Kentucky Power for providing incomplete and misleading information to the PSC during an earlier case involving the utility's purchase from a sister company of a 50-percent share in the Mitchell power plant in West Virginia to replace the Big Sandy No. 2 generating unit in Lawrence County. The PSC in October 2013 approved the purchase.

Today's PSC action arises from a routine review of Kentucky Power's fuel costs, which are adjusted regularly through a mechanism that accounts for fluctuations in the price of coal and other factors.

The period covered by the review included the first four months of a 17-month period during which Kentucky Power is operating both Big Sandy No. 2 and the Mitchell plant. Big Sandy No. 2 is due to close at the end of May 2015.

During the "overlap period" when both plants are operating, Kentucky Power is generating more electricity than it needs to serve its customers. It is selling what surplus power it can into the open market.

In evidence submitted by Kentucky Power in the Mitchell case, the utility said that the acquisition of the Mitchell plant would reduce the company's annual fuel costs by $16.75 million, with those saving passed on to ratepayers.

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However, the company did not disclose that operating the surplus generating capacity would impose an additional $38.25 million in annual fuel costs on Kentucky Power's customers due to the method the company uses to calculate those costs.

"Kentucky Power did not disclose this information" despite being aware of it during the Mitchell case, the PSC said in today's order. "It is incomprehensible to the Commission how information this significant, resulting in costs of this magnitude, could have been overlooked by Kentucky Power in the Mitchell case."

The parties that negotiated a proposed settlement in the Mitchell case "had every right to believe" that all costs related to the transaction had been disclosed during their negotiations with Kentucky Power, the PSC said.

"It is difficult to overstate the importance" of the PSC decision to accept the settlement in the Mitchell case to Kentucky Power's customers, to the other parties and to the Commission itself, the PSC said.

"Transparency is critical, and indeed one of the touchstone principles in the regulatory process," the PSC said. "The failure of Kentucky Power to disclose this information in the Mitchell case is a matter of great concern to the Commission."

About $54 million in fuel costs already charged or projected to be charged to Kentucky Power customers during the overlap period ending in May is unreasonable, the PSC found. Kentucky Power was ordered to make an initial refund of $13.24 million, spread equally over four months.

The refund will be in the form of credits applied to the fuel cost adjustment. The fuel cost adjustment appears as a separate line item on electric bills.

Kentucky Power was ordered to immediately stop collection of the costs the PSC determined to be unreasonable. The charges collected during the remainder of 2014 and first few weeks of this year will be disallowed and ordered refunded in future fuel cost review proceedings, the PSC said.

Despite finding that the cost allocation during the overlap period was unreasonable, the PSC said today's decision "has no impact on our decision" that the Mitchell purchase "over the long term, still represents the lowest reasonable cost alternative" for replacing Big Sandy No. 2.

Other parties in the fuel cost proceeding were the Kentucky Office of Attorney General and the Kentucky Industrial Utility Customers, Inc. (KIUC), which represents large industrial customers. Both also participated in the Mitchell case, with KIUC a party to the non-unanimous settlement supporting the purchase.

The PSC conducted a hearing in the fuel cost case on Nov. 12, 2014.

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Today's order, other records in the case and a video of the hearing are available on the PSC website, psc.ky.gov, as are similar records in the Mitchell case. The case numbers are 2014-00225 (fuel cost review) and 2012-00578 (Mitchell acquisition).

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 85 employees.

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