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PSC to Review Kentucky Power Energy Efficiency Program

Cites cost of program in light of economic woes in utility's service territory

FRANKFORT, Ky. (Feb. 23, 2017) – Recognizing that the escalating cost of demand-side management programs has "exacerbated an already bleak economic situation for many of Kentucky Power (Company's) customers," the Kentucky Public Service Commission (PSC) has opened a review of the programs.

In an order issued today, the PSC said it will evaluate whether the programs remain cost-effective in light of the fact that demand for electricity is decreasing across Kentucky Power's 20-county service territory in eastern Kentucky. The utility serves about 168,000 customers.

The PSC cited federal economic statistics that show the poverty rate and percentage of the population on fixed incomes in Kentucky Power's service territory are far above the Kentucky and national averages, while the median income is far below the state and national figures.

Demand-side management, or DSM, programs are designed to reduce electric power consumption, mostly by residential and commercial customers, through various measures that improve energy efficiency. DSM programs are intended to benefit consumers not only by saving energy and money, but also by postponing or eliminating the need to construct expensive new power plants to meet anticipated future increases in demand for electricity.

But Kentucky Power has lost customers over the last 15 years and projects a steady decline in both the number of customers and the amount of electricity it will sell over the next 15 years

Under state law, a utility may recover the cost of its DSM programs thorough a surcharge on customer bills. The surcharge covers the cost of the programs and recoups a portion of the revenue the company loses as a result of lower electric consumption.

In the last year, the monthly surcharge paid by the typical Kentucky Power residential customer has increased 20-fold, going from about 51 cents to $10.61.

Most of the increase is due to an October 2013 agreement that Kentucky Power reached with other parties to a case involving the utility's acquisition of a 50-percent stake in the Mitchell Generating Station in West Virginia. The Mitchell plant replaced generating capacity lost by the closure of the larger of two generating units at the Big Sandy power plant in Lawrence County, Kentucky.

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The other parties to the agreement were the Kentucky Industrial Utility Customers, Inc., which represents large industrial customers (who do not participate in the DSM program), and the Sierra Club.

Under the 2013 agreement, Kentucky Power agreed to increase annual DSM spending from $3 million in 2013 to $4 million in 2014, $5 million in 2015, and $6 million in 2016, 2017 and 2018.

After holding a hearing on the proposed agreement, the PSC approved it. The PSC subsequently approved several increases to the DSM surcharge to reflect the increased spending called for by the agreement.

In today's order, the PSC noted that declining demand for electricity in Kentucky Power's service territory has called into question the need for extensive DSM programs. Under those circumstances, the PSC will review "Kentucky Power's DSM programs, rates and costs against the backdrop of the economic condition of its customers and the region in which Kentucky Power serves" and will "evaluate whether continuing the current programs and level of spending is reasonable and in the best interests of customers."

The order opening the case also includes a number of questions for Kentucky Power. The responses are due on March 17, 2017.

Today's order and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2017-00097.

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 75 employees.

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