Statutory framework for changes in generating capacity by electric utilities in Kentucky –

Kentucky Power – Case 2012-00578

May 2013

KENTUCKY PUBLIC SERVICE COMMISSION

Two applicable review processes:

- Integrated resource planning (IRP)
  807 KAR 5:058

- Certificate of public convenience and necessity (CPCN)
  KRS 278.020 (1)

Application of both processes is determined by statute, regulation and legal precedent

Planning for adequate capacity

Key points:

- Utilities are required to provide adequate service (KRS 278.030) – PSC requires adequate generating capacity, including reserve margin

- PSC requires integrated resource planning (IRP) by electric utilities (807 KAR 5:058) – includes demand forecasts and plans for meeting demand – PSC places equal emphasis on managing demand as on adding capacity - three-year planning cycle

- Specific projects to add generating capacity must be consistent with a utility's IRP

Retirement of generating facilities

Key points:

- Kentucky statutes do not require a utility to receive prior approval to retire generating capacity

- Utilities generally retire capacity for one or more of the following reasons:

  - It is an older facility that needs to be upgraded, but it is not cost effective to do so

  - The facility is obsolete, inefficient or uneconomical to operate

  - The facility is no longer needed due to changes in current or projected demand

Retirement of generating facilities

Key points:

- Other than regular review of utility IRPs, the PSC does not have a direct role in utility decisions regarding retirement of generating capacity
- PSC has broad authority under statute requiring utilities to provide adequate service
- PSC can investigate generating facility retirements in order to:
  - Determine whether a utility maintains adequate generating capacity to meet current and projected demand
  - Examine whether a utility has acted reasonably with respect to the impact on rates

Addition of new generating capacity

Key points:

- Utilities acquire new generating capacity to replace facilities that are going out of service or to meet projected demand, consistent with their IRPs

- Addition of capacity may involve any of the following, alone or in combination:

  - Construction of new utility-owned facilities

  - Lease or purchase of generating facilities

  - Contracts for purchasing power from a third party

Prior to construction or acquisition of any major facility, including an electric generating facility, a utility must apply for a certificate of public convenience and necessity (CPCN)

The CPCN process:

Key points:

- Statute (KRS 278.020) is general – parameters of PSC decision have evolved over time through legal precedents
- Applicant must show a need for proposed facility – for generating facilities, this includes forecasts of both demand and future generating capacity
- Utility must show it has considered reasonable options, such as:

  - construction of various types of new facilities
  - purchase or lease of generating capacity
  - long-term contracts to purchase power from a third party
  - demand-reduction measures

The CPCN process:

Key points:

- Wasteful duplication is not allowed – a utility may not overbuild or incur unnecessary costs
- "Least cost" principle flows from absence of wasteful duplication
  - Least cost not just construction or acquisition cost
  - Long-term costs also considered
  - PSC seeks least-cost reasonable option
- Grant of a CPCN leads to a presumption of future cost recovery

The CPCN process:

Procedure:

- No statutory time frame
- Intervention permitted
- Hearings/public comment meetings
  - Hearing webcasts at psc.ky.gov
- Public comments

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CPCN case

- Purchase of 50% interest in Mitchell power plant
- South of Moundsville, West Virginia
- Kentucky Power and Ohio Power both subsidiaries of American Electric Power Co.
- 780 megawatts (MW) of capacity – coal-fired
- Replacement for 800 MW from Big Sandy #2, which will be shut down in mid-2015

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- Mitchell purchase price = $536 million
- Big Sandy #2 upgrade = $940 million
- Difference = $404 million

Kentucky Power dropped upgrade plan in May 2012 in order to further review other options. The utility says Mitchell purchase is most cost-effective option. Mitchell does not need upgrades.

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Rate impact

- $6/month (8%) for typical residential customer
- Big Sandy upgrade impact - $31/month

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Big Sandy #1 – not part of this case

- 278 MW unit – older than Big Sandy #2
- Scheduled to close by end of 2014
- Could be converted to natural gas
- Replacement plans not finalized

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Evidentiary hearing

- 10 a.m. EDT, Wednesday, May 29
- At PSC offices in Frankfort
- Open to the public
- Webcast at psc.ky.gov

Public Comments

- E-mail to psc.info@ky.gov

  Put the case number 2012-00578 in the subject line
- Written comments to PSC

  Kentucky Public Service Commission

  211 Sower Boulevard

  Frankfort, KY 40601

  (include case number 2012-00578)
- Fax to 502-564-9625

For More Information

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