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NEWS RELEASE

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PSC Approves Kentucky Power Rate Settlement

Rate increase cut in half; PSC rejects wind energy contract

FRANKFORT, Ky. (June 28, 2010) – The Kentucky Public Service Commission (PSC) today approved a settlement granting Kentucky Power Co. (American Electric Power) an annual revenue increase of \$63.7 million (12.5 percent), which is about half the amount sought by the utility.

Under the settlement, the average bill for a typical residential customer using 1,430 kilowatt-hours per month (A kilowatt-hour is the amount of electricity used by a 100-watt light bulb in 10 hours.) would rise to more than \$134, an increase of about 17 percent from the current average of about \$115.

Kentucky Power had sought a revenue increase that would have increased the average monthly residential bill to \$153, about 34 percent above the current average.

Kentucky Power negotiated the settlement with the Kentucky Office of Attorney General and other parties to the case. The PSC conducted a public hearing on the settlement on May 25. In April, prior to the submission of the settlement, the PSC conducted meetings in Ashland, Pikeville and Hazard to take public comments on the proposed increase.

In an order issued today, the PSC ruled that the settlement produced rates that are “fair, just and reasonable” and should be approved. The new rates take effect Tuesday, June 29.

While reducing the size of the rate increase, the settlement calls for Kentucky Power to increase its spending on clearing vegetation along its power lines. The settlement does not address a proposal by Kentucky Power to purchase electricity from a wind farm in Illinois. It was set aside for a separate decision by the PSC, which also was issued today.

Kentucky Power has about 176,000 customers in 20 counties in eastern Kentucky. Its last rate increase was granted in March 2006.

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The company originally proposed to increase its electric rates across all classes of customers in order to generate an additional \$123.6 million in revenue per year – an increase of about 24 percent.

In addition to the Attorney General, other parties granted full intervention in the case were the Kentucky Industrial Utility Customers, Inc. (KIUC); Community Action Kentucky; Hazard-Perry County Community Ministries, Inc.; the Kentucky School Board Association, and Wal-Mart Stores East, LP and Sam's East.

Limited intervention was granted to Pike County Senior Citizens Programs, Inc. It did not agree to the settlement, saying that the increase was disproportionately allocated to residential customers and would pose a hardship for senior citizens on fixed incomes.

“We appreciate and sympathize with Pike Senior Citizens, other organizations and all of the ratepayers affected by our decision in this matter,” the PSC said in today's order. But the argument that each type of customer should receive the same percentage increase would be valid only if the cost of serving each class was the same, the PSC said.

In fact, Kentucky Power's current revenue from residential customers does not cover its cost of serving those customers, the PSC said. Even with the rate increase, residential service will continue to be Kentucky Power's least profitable customer class, the PSC found.

Therefore, residential customers are receiving “fair, just and reasonable” treatment, the PSC concluded in not granting Pike Senior Citizens' request to reallocate the rate increase.

The PSC noted that many of the hundreds of public comments received in the case, both in writing and at the public meetings, focused on Kentucky Power's vegetation maintenance practices, which many customers said “exacerbated the outages” during a major snowstorm last December.

The increased spending on vegetation maintenance “was a very important factor” in its acceptance of the agreement, the PSC said.

Kentucky Power said the increased spending will enable it to achieve a four-year cycle in clearing vegetation from near its power lines. The PSC said it intends “to closely monitor the work in the field to gauge the progress being made,” the PSC said.

Other provisions of the settlement include:

- The monthly residential service charge will increase from \$5.86 to \$8.
- The per-kilowatt-hour charge will be 8.59 cents, up from 7.19 cents. That increase includes the roll-in into base rates of an environmental surcharge that had been assessed separately.

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- The monthly surcharge for the Home Energy Assistance Program will increase by five cents, to 15 cents per residential meter. Kentucky Power's shareholders will match each 15 cents with a contribution of 12.5 cents.
- Kentucky Power will recover, over a five-year period, \$23.3 million in expenses incurred for repairs following a series of storms.

The overall annual revenue increase in the settlement does not include the \$14.5 million that Kentucky Power proposed to spend to purchase 100 megawatts of power from a wind farm in Illinois. The purchase was the subject of a separate case.

Kentucky Power said that entering into a 20-year contract to purchase wind power would prepare the company to comply with any future state or federal mandates to increase the use of renewable energy and reduce emissions from the use of coal and other fossil fuels. The company acknowledged no renewable energy mandates exist in Kentucky, but argued that they are inevitable.

Both the Attorney General and KIUC urged the PSC to reject the wind power contract, saying the more expensive power would impose a needless expense on Kentucky Power's customers. They also said the company does not need the additional power.

By a 2-1 vote, the PSC rejected the proposed contract. Chairman David Armstrong and Commissioner Charles Borders, in their majority decision, noted that the PSC cannot approve a power purchase that is not immediately needed and is more expensive than current power sources, but commended Kentucky Power's interest in renewable energy sources.

Vice Chairman Jim Gardner said the wind power contract should be approved. The cost of wind power is comparable to other power purchases made by Kentucky Power, he said in his dissent. Furthermore, requirements for renewable power are likely and purchasing wind power now would lead to cost savings over the long term, Gardner said.

Today's orders and related documents are available on the PSC Web site, psc.ky.gov. The rate case number is 2009-00459. The wind contract case is 2009-00545.

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 100 employees.