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NEWS RELEASE

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PSC Approves Settlement in Kentucky Power Rate Case

Modifies some provisions, including residential rate structure

FRANKFORT, Ky. (June 22, 2015) – The Kentucky Public Service Commission (PSC) has approved, with modifications, a settlement agreement granting a rate increase to Kentucky Power Co.

The agreement allows Kentucky Power to increase annual revenue by $45.4 million, which is about 65 percent of the amount sought by the company in its application. As part of the settlement, Kentucky Power agreed to drop its appeal of an earlier PSC decision that disallowed certain fuel costs, saving the company's customers a total of about $54 million.

In an order issued today, the PSC altered several provisions in the settlement agreement, including shifting a portion of the rate increase for residential customers from the monthly customer charge to the charge for electricity consumption.

The settlement and order also address a number of other issues, including an amended environmental compliance plan that reflects shifts in the company's generating capacity. It sets forth the terms for recovery of costs related to the shutdown of the larger of two coal-burning units at the Big Sandy power plant in Lawrence County and the conversion of the smaller unit to burn natural gas rather than coal.

Also included is a 15-cent per customer monthly charge that will generate about $300,000 annually – to be matched by company shareholders – for a fund to support economic development efforts in Kentucky Power's service territory.

Kentucky Power, a subsidiary of American Electric Power Co., has about 173,000 customers in 20 counties in eastern Kentucky. Its last base rate increase came in June 2010.

The company filed the current case on Dec. 23, 2014. The PSC held an evidentiary hearing on May 5, as well as earlier public comment meetings in Hazard, Louisa and Pikeville.

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Other parties to the case included the Kentucky Office of Attorney General, the Kentucky Industrial Utility Customers (KIUC), the Kentucky School Boards Association (KSBA) and Wal-Mart Stores/Sam's.

The settlement agreement, filed with the PSC on April 30, involved Kentucky Power, KIUC and KSBA. Wal-Mart/Sam's, while not a party to the agreement, stated that it had no objections to it. The Attorney General did not agree to the settlement.

Today's order gives the parties seven days in which to accept the PSC's changes to the settlement agreement. If they do, the new rates would take effect June 30. If the parties do not accept the changes, the PSC would reopen the case.

In its review of the settlement, the PSC found that the additional annual revenue of $45.4 million is somewhat smaller than could be justified by an analysis of the company's operating expenses, borrowing costs and reasonable rate of return for investors.

However, the PSC modified the settlement's agreed-upon rate structure for residential customers, reducing the fixed monthly charge and increasing the cost per kiloWatt-hour, or kWh, by an amount that will produce the same total revenue. (A kiloWatt-hour is the amount of electricity used by a 100-watt light bulb in 10 hours.)

The current residential rate structure and the residential rate structures proposed by Kentucky Power, set forth in the settlement and ordered by the PSC, are in the chart below. The average bill is based on usage of 1,362 kWh per month.

	Current	**Proposed**	**Settlement**	**PSC Order**
Monthly Charge	$ 8	$16	$14	$11
Cost per kWh	8.59 ₵	9.035 ₵	8.689 ₵	8.91 ₵
Average bill	$124.99	$139.05	$132.34	$132.35

In making the change, the PSC stated that it is adhering to its long-standing practice of shifting costs between fixed rates and energy charges only on a gradual basis.

The base rate does not include environmental surcharges, fuel cost adjustments and other items. Kentucky Power currently has riders (surcharges) that add nearly $14 to an average customer's monthly bill. The settlement approved by the PSC includes new riders and changes to current riders that will increase that amount by about $6 per month, to about $20.

A portion of the increased revenue is allocated toward further improvements in Kentucky Power's management of vegetation along its power lines. By mid-2019, Kentucky Power expects to have completed a shift to a regular five-year cycle of clearing vegetation throughout its system.

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That will reduce the company's annual revenue needs by about $11.78 million, with a corresponding decrease in rates. The PSC said it expects Kentucky Power to submit the rate decrease in a "timely and accurate" manner.

The settlement also ends a dispute over fuel costs associated with Kentucky Power's concurrent operation of the larger unit at the Big Sandy plant and the company's 50 percent share of the Mitchell power plant in West Virginia. Kentucky Power acquired the share of the Mitchell plant in January 2014 and operated both facilities until May 2015, when the Big Sandy unit ceased operations.

Earlier this year, the PSC directed Kentucky Power to refund $13 million in fuel costs that it collected during the first four months of last year. Kentucky Power also was ordered to refund or forego collection of an estimated $41 million in additional fuel costs that was to be collected through the end of May 2015.

Kentucky Power appealed the decision. The settlement includes an agreement to drop the appeal. The order sets forth a schedule for the refund of an additional $17.8 million (out of the $41 million) already charged to customers.

The PSC also reiterated its denial, in an earlier case, of a Kentucky Power request to recover about $28.1 million in costs associated with an abandoned plan to install new emission controls at the Big Sandy plant.

Today's order, the settlement agreement and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2014-00396.

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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