

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER	)	
COMPANY FOR (1) APPROVAL OF A	)	
DEVIATION FROM THE REQUIREMENTS OF	)	
807 KAR 5:006, SECTION 8(1)(d)(3)(d), AND	)	
807 KAR 5:006, SECTION 11(5), TO PERMIT	)	CASE NO.
THE COMPANY TO ESTABLISH ADDITIONAL	)	2015-00364
MEANS OF MAKING REFUNDS; (2) FOR	)	
AUTHORITY TO AMEND ITS TARIFFS TO	)	
ESTABLISH ADDITIONAL MEANS OF MAKING	)	
REFUNDS; AND (3) FOR ALL OTHER	)	
REQUIRED APPROVALS AND RELIEF	)	

ORDER

On November 19, 2015, Kentucky Power Company ("Kentucky Power") filed an application requesting approval to implement the use of prepaid cards as an additional method of making refunds to its residential customers. In order to implement the use of prepaid cards, Kentucky Power requests deviations from the requirements of 807 KAR 5:006, Section 8(1)(d)(3)(d), which limits Kentucky Power to using paper checks, bill credits, and electronic funds transfer in making deposit refunds, and 807 KAR 5:006, Section 11(5), which prescribes the form to be used by a utility to notify a customer of refunds or back billing resulting from meter test adjustments. The provisions of 807 KAR 5:006, Section 11(5), do not identify prepaid cards as an authorized method to

refund overbilled amounts.<sup>1</sup> Kentucky Power also requests approval of certain tariff changes to reflect the use of prepaid cards or electronic funds transfer as alternative methods to refund deposits.

On December 9, 2015, the Commission issued an Order establishing a procedural schedule for the processing of this matter. The procedural schedule provided a deadline for requesting intervention and allowed for two rounds of discovery upon Kentucky Power's application. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), is the only intervenor in this matter. After Kentucky Power had responded to two rounds of discovery, the Commission issued an Order on February 29, 2016, amending the procedural schedule to allow the parties an opportunity to file comments to Kentucky Power's application. That Order also established a deadline for the parties to either request a formal hearing or request that the matter be submitted for a decision upon the existing record. On March 25, 2016, Kentucky Power and the AG filed a joint request to have the matter submitted for a decision on the record and waiving the need for an evidentiary hearing on this matter.

#### BACKGROUND

Kentucky Power currently issues refunds to its residential customers by way of a bill credit or a paper check. For the 12-month period ending June 30, 2015, Kentucky Power issued approximately 8,400 customer refund checks totaling approximately

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<sup>1</sup> 807 KAR 5:006, Section 11(5), requires that the notice include, among other things, the following language: "If you desire a cash refund, rather than a credit to your account, of any amount overbilled, you shall notify this office in writing within seven (7) days of the date of this notice." Kentucky Power proposes to amend the notice to the following language: "If you desire to receive a refund by check or electronic funds transfer in lieu of a prepaid card you may request either as described in this letter."

\$1.585 million. Kentucky Power notes that approximately 62 percent of the refund checks were issued to residential customers, with the average refund amount being \$188.39. With its application, Kentucky Power proposes to revise its refund process by providing certain residential customers with a new method by which they may receive refunds. Specifically, Kentucky Power proposes to issue refunds to its residential customers via prepaid cards. The following types of refunds to Kentucky Power's residential customers, which are currently made by paper check, will be made by prepaid cards, which would be the new default method:

- (a) Deposit refunds to persons who posted a deposit but are not a customer, or customers leaving [Kentucky Power's] system and who have a credit balance after applying the deposit to the former customer's account balance.
- (b) Refunds in connection with billing adjustments following a meter test; and
- (c) Refunds made following the annual recalculation of budget amounts.<sup>2</sup>

Non-residential customers will continue to receive their refunds by means of a bill credit or paper check. Kentucky Power notes that commercial and industrial customers, whose accounting, audit, and bookkeeping requirements are more extensive than those of a typical residential customer, typically require a paper check or bill credit for record keeping and cash management purposes. Also, for continuing Kentucky Power residential customers, refunds of deposits will continue to be made by bill credit. Further, prepaid cards will not be available for refunds on amounts paid as contributions in aid of construction. Kentucky Power states that contributions in aid of construction are tariffed charges for work performed by it in connection with certain

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<sup>2</sup> Application at 7-8.

service extensions and that these charges are required to be paid before service is installed. Thus, the customer lacks an active electric service account. Prepaid cards, by contrast, will be used in connection with refunds on a customer's electric account.

Residential customers eligible for refunds will receive a prepaid Visa card in the amount of the refund from Kentucky Power's third-party issuer, Citibank.<sup>3</sup> Accompanying the prepaid card will be a letter stating the customer may immediately use the card to make purchases, may request Citibank to replace the card with a paper check, or may request that the refund be deposited to the customer's bank account by means of an electronic transfer of funds. The letter will also include the terms and conditions of the prepaid card. There will be no charge to a customer requesting a paper check or an electronic funds transfer. A monthly maintenance fee of \$3.00 will be charged prospectively if the full card balance is not used within the first six months. Beginning in the seventh month following the issuance of a prepaid card, a \$3.00 monthly maintenance fee will be assessed in each month in which during the prior 90-day period no purchases were made using the prepaid card. Lastly, initial replacement cards are free, but subsequent replacement cards may be subject to a replacement fee of \$6.95.

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<sup>3</sup> American Electric Power ("AEP"), Kentucky Power's parent company, selected Citibank because it was the only provider known to AEP to be willing and able to design and build over a four year implementation period a process that would include check issuances, prepaid card services, and multi-state escheatment. Citibank was also the only provider known to AEP to have implemented a similar utility customer refund program. Lastly, the pricing from Citibank was at least \$1 per transaction less than those offered by Bank of America and KeyBank. AEP intends on implementing a program to use prepaid cards to make refunds across all of its service territories. To date, Ohio Power Company and Public Service Company of Oklahoma have implemented such programs beginning in April 2015 and September 2015, respectively. At the time of the filing of the instant application, Southwestern Electric Power Company expects to implement its program in Arkansas and Louisiana in November 2015 and had a pending application for approval of a similar program in Texas. The other AEP affiliates anticipate implementing their programs in early 2016.

Kentucky Power asserts that the prepaid card method will offer the following advantages to its residential customers:

- Allow immediate access to the funds. Refunds made by checks may require one or more business days for the funds to become available.
- Allow customers access to the funds without making a trip to a financial institution or other check-cashing facility to deposit or cash the check.
- Allow unbanked or underbanked customers ready access to funds. Some financial institutions decline to cash checks for non-customers.
- Permit unbanked or underbanked customers the ability to avoid check-cashing fees levied by financial institutions to cash checks presented by non-customers.
- May be used at any of the thousands of locations that accept such cards.
- Will be replaced by Citibank once without charge if lost or stolen. Also, the persons to whom the prepaid cards are issued are not liable for fraudulent third-party use of the cards.

Kentucky Power maintains that use of prepaid cards would allow it to avoid the liability and cost associated with lost, stolen, and fraudulently used checks because its prepaid card arrangement transfers this responsibility to Citibank. Kentucky Power asserts that use of prepaid cards would help limit losses suffered by local merchants and banks that are often the targets of check fraud. Lastly, Kentucky Power avers that it anticipates improved customer satisfaction derived from the several advantages accruing to its customers by the prepaid cards.

## DISCUSSION

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed revision to Kentucky Power's refund process to allow the issuance of prepaid cards is reasonable and should be approved. The Commission notes that the proposed utilization of prepaid cards should provide benefits to Kentucky Power's residential customers as described by the company and that the prepaid card program is less costly than the current paper check method. We also find that Kentucky Power's request for deviations from 807 KAR 5:006, Section 8(1)(d)(3)(d), and 807 KAR 5:006, Section 11(5), to be reasonable in order for Kentucky Power to fully implement the proposed prepaid card program. The Commission, however, finds that Kentucky Power's residential customers should be fully informed of any potential fees associated with the prepaid card method. Therefore, we will require Kentucky Power to develop and implement, as part of the company's training process for its customer service representatives, protocols that would ensure that those customers who will be receiving a prepaid card be informed of the potential fees that could be assessed in connection with the prepaid card. Lastly, the Commission finds that pursuant to the tariff requirements contained in 807 KAR 5:06, Section 8(8)(d), Kentucky Power should revise its tariff to include language that expressly acknowledges its continuing obligation for its customer service representatives to fully address and resolve any customer complaints or disputes related to: (1) the accuracy of the names and last known addresses of the customers to receive prepaid cards; (2) the effective delivery and receipt of the prepaid cards; and (3) the amount of any refunds.

IT IS HEREBY ORDERED that:

1. Kentucky Power's application is approved.
2. Kentucky Power's request for deviations from the requirements of 807 KAR 5:006, Section 8(1)(d)(3)(d), and 807 KAR 5:006, Section 11(5), to permit Kentucky Power to establish an additional means of making refunds is granted.
3. Kentucky Power's proposed changes to Tariff Sheet 2-3, Terms and Conditions of Service, paragraph 4(E), and Tariff Sheet 2-11, Terms and Conditions of Service, paragraph 20, to authorize the use of prepaid cards and electronic funds transfers to make residential refunds are approved.
4. Kentucky Power shall develop and implement, as part of the company's training process for its customer service representatives, protocols to ensure that customers receiving a prepaid card will be informed of the potential fees that could be assessed in connection with the prepaid card.
5. Kentucky Power shall ensure that the third-party issuer, Citibank, is provided accurate customer identification so that any prepaid cards to be issued include the correct customer's name, which will also aid in the effective delivery and receipt of the prepaid cards.
6. Within 60 days of the date of this Order, Kentucky Power shall file with the Commission a status report documenting its efforts to develop and implement a training process for its customer service representatives regarding the prepaid cards, along with a copy of the established protocols and measures to ensure that customers receiving a prepaid card will be informed of the potential fees that could be assessed in connection with the prepaid card.

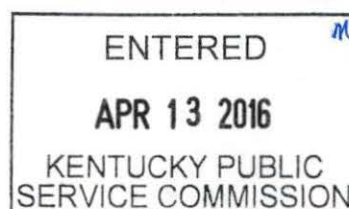
7. Kentucky Power shall revise its tariff to include language to expressly acknowledge its continued obligation for its customer service representatives to fully address and resolve any customer complaints or disputes related to: (a) the accuracy of the names and last known addresses of the customers to receive prepaid cards; (b) the effective delivery and receipt of the prepaid cards; and (c) the amount of any refunds.

8. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff as approved and directed herein.

9. Any document filed pursuant to ordering paragraph 6 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

10. The Executive Director is delegated authority to grant reasonable extension of time for the filing of any documents required by ordering paragraph 5 of this Order upon Kentucky Power's showing of good cause for such extension.

By the Commission



ATTEST:

Acting Executive Director

Case No. 2015-00364



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