

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF KENTUCKY POWER COMPANY)	
PURSUANT TO 807 KAR 5:080 FOR)	CASE NO.
ESTABLISHMENT OF A NEW NONREGULATED)	2014-00420
ACTIVITY)	

ORDER

On November 11, 2014, Kentucky Power Company ("Kentucky Power") submitted a tariff filing seeking authority to implement a new proposed nonregulated activity through billing for home warranty services to be provided by Homeserve USA Corp. ("Homeserve"). By Order issued December 8, 2014, the Commission suspended the proposed tariff up to and including May 11, 2015.

The proposed Homeserve program will be a third-party program administered by Homeserve through which Homeserve will offer warranties and emergency repair for residential customers' appliances and infrastructure. Kentucky Power will provide customers' names, addresses, and e-mail addresses to Homeserve to enable soliciting enrollment in the program. Those customers who enroll in any part of the optional program will have a warranty line item added to their bill. Kentucky Power expects the program to generate \$50,000 in year one, increasing to \$250,000 in year five. Kentucky Power does not expect its total annual nonregulated revenue to exceed \$1 million, or 2 percent of its total annual revenue.¹

¹ Application at 4.

At Kentucky Power's request, an informal conference was held at the Commission's offices on January 8, 2015. In the course of the informal conference, Kentucky Power stated that only those customers who opt into the program will have the line-item added to their bills referencing the Homeserve program. Customers who do not opt in will not notice any changes to their bills or service. Upon contracting for a warranty with Homeserve, a welcome kit providing additional information will be mailed to the enrolling customer.²

Kentucky Power indicated that it will allocate costs between its regulated activities and costs related to Homeserve, as an unregulated activity. Although Homeserve will use Kentucky Power's marks³ in marketing and administration of the warranty service,⁴ Kentucky Power explained at the informal conference that warranty workers will be independent contractors and will not bear any Kentucky Power insignias.⁵ Kentucky Power also stated that contracts will be entered into between Homeserve and individual customers and that it will have no liability related to the Homeserve warranty service.⁶

² Informal Conference Memo, paragraph 3.

³ The Homeserve USA Corp. Master Services Agreement with American Electric Power ("AEP") and Kentucky Power defines marks as "customer facing service marks, lettering, trade dress, color schemes, logos, trademarks, word marks, symbols, emblems, trademark designs, indicia or source, identification, sponsorship or affiliation, that are used by AEP. . . ." Staff Informal Conference Data Request, Item 1, Attachment 1, at 5.

⁴ Application at 3.

⁵ *Id.*, paragraphs 2 and 5.

⁶ *Id.*, paragraph 4.

Kentucky Power will receive payments from customers for the Homeserve warranty service and remit amounts due to Homeserve. Electric service will not be terminated by Kentucky Power for a customer's failure to make timely payment for the Homeserve warranty service. Payments received by Kentucky Power will first be applied to amounts due for services offered by Kentucky Power.⁷

Kentucky Power's application states that it will review and approve all marketing materials prior to their use by Homeserve and that no solicitations or Homeserve inserts will be included in Kentucky Power's billing envelopes.⁸

Kentucky Power further states that neither it nor its employees or agents will be involved in the marketing of the Homeserve warranty service;⁹ however, the Commission recognizes that some time will be spent by Kentucky Power employees related to the warranty service, including but not limited to, setting up the line item on customers' bills, collecting payments related to the warranty service, accounting for and remitting those payments, and possibly a portion of customer-service call center employees' time.¹⁰ In addition to ongoing costs related to the service, the time spent by Kentucky Power and its counsel in processing this case is entirely related to the non-regulated warranty service.

⁷ Application at 3.

⁸ *Id.* at 3 and 4.

⁹ *Id.* at 3.

¹⁰ The HomeServe USA Corp. Master Services Agreement, p. 3, filed in response to the January 8, 2015 Informal Conference, states that an operating company that signs a Work Authorization, referred to as an OPCo, "shall assist HomeServe with the marketing, advertising and sale of the Products by providing Customer Service and by ensuring that OPCo's call center staff are properly trained and knowledgeable so as to provide Customer Service."

KRS 278.2205 requires a utility to develop and maintain a cost allocation manual ("CAM") for use in recording nonregulated activities that exceed the lesser of 2 percent of the utility's total revenue or one million dollars as set forth within KRS 278.2203(4)(a). 807 KAR 5:080, Section 2, requires a utility to annually file certain information with the Commission, including information pertaining to changes in the utility's CAM and a report of the utility's incidental nonregulated activity.

Kentucky Power has provided information demonstrative of its ability and willingness to comply with the aforesaid requirements through confirming that it has a CAM in place and will properly report and allocate the costs between its respective activities.

Finally, KRS 278.2213(13) provides that a utility's name, trademark, brand, or logo shall not be used by a non-regulated affiliate without a disclaimer. Because Homeserve is not a Kentucky Power affiliate, the terms of KRS 278.2213(13) are inapplicable herein. Moreover, all warranty work will be contracted through local independent contractors who will not bear any Kentucky Power insignias. Kentucky Power's name will appear only on marketing materials sent by Homeserve, after review and approval by Kentucky Power. Kentucky Power will also include a disclaimer on each bill that includes a charge for a Homeserve warranty indicating that the warranty is optional and will first apply payments to customers' electric bills prior to remitting any funds to Homeserve.

Having considered Kentucky Power's request and being otherwise sufficiently advised, the Commission finds that because Homeserve is not an affiliate of Kentucky Power, approval pursuant to KRS 278.2213(13) is not required. However, the proposed

Homeserve tariff is a nonregulated activity that falls within the scope of KRS 278.2203(4)(a). Accordingly, the Commission finds that Kentucky Power's proposed tariff changes should be approved.

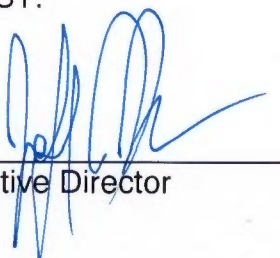
IT IS THEREFORE ORDERED as follows:

1. Kentucky Power's proposed changes to its tariff related to the billing of the Homeserve warranty service are approved.
2. Kentucky Power shall allocate its costs incurred in administering the Homeserve warranty program in accordance with its CAM.
3. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, its revised tariff sheets showing the date of issue and that it was issued by authority of this Order.

By the Commission

ENTERED FEB 10 2015 KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:



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