

Commonwealth of Kentucky

HOUSE OF REPRESENTATIVES



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May 17, 2013

RECEIVED

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PUBLIC SERVICE
COMMISSION

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

RE: CASE NO. 2012-00578

Dear Mr. Derouen:

Please find attached a copy of the prepared remarks by State Representative Rocky Adkins at the Commission's public hearing in Louisa, Kentucky on May 14, 2013.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Dorman".

Thomas M. Dorman
Chief of Staff
House Majority Floor Leader

Attachment

MR. CHAIRMAN, MEMBERS OF THE COMMISSION.

WELCOME TO LOUISA, KENTUCKY AND THE 99TH HOUSE LEGISLATIVE DISTRICT. MY NAME IS ROCKY ADKINS AND I HAVE REPRESENTATED THE 99TH DISTRICT FOR OVER 25 YEARS.

I APPRECIATE THE OPPORTUNITY TO SHARE WITH YOU TODAY THE FEARS AND CONCERNS I HAVE HEARD FROM MY CONSTITUENTS, AS WELL MY OWN GREAT CONCERNS, ABOUT THE DECISIONS BEFORE YOU REGARDING THE KENTUCKY POWER COMPANY AND THE BIG SANDY POWER PLANT.

KENTUCKY POWER HAS PROVIDED ELECTRICAL SERVICE TO EASTERN KENTUCKY SINCE 1919. THE HILLS OF EASTERN KENTUCKY ARE AT BEST A CHALLENGING SERVICE TERRITORY. BUT WITH REVENUES FROM THEIR KENTUCKY RATE PAYERS, KENTUCKY POWER HAS PROVIDED ON THE WHOLE REASONABLE AND RELIABLE SERVICE FOR MANY, MANY YEARS. BUT NOW KENTUCKY POWER HAS PLACED BEFORE YOU, THE PUBLIC SERVICE COMMISSION, AN EXTREMELY IMPORTANT DECISION ABOUT HOW KENTUCKY POWER WILL BE STRUCTURED FOR THE FUTURE AND HOW IT WILL CONTINUE TO PROVIDE SERVICE TO ITS CUSTOMERS.

THE MATTER CURRENTLY BEFORE YOU IS THE TRANSFER OF OWNERSHIP OF 50% OF THE ASSETS OR 780 MEGA WATTS OF OHIO POWER'S MITCHELL POWER PLANT UNITS 1 AND 2. THAT DECISION HAS FAR BIGGER RAMIFICATIONS THAN THE CASE BEFORE YOU BECAUSE THE TRANSFER OF THOSE GENERATION ASSETS LOCATED IN WEST VIRGINIA WILL MEAN PERMANENTLY SHUTTING DOWN BIG SANDY UNIT 2.

JUST LAST YEAR KENTUCKY POWER WAS BEFORE YOU ASKING FOR A CERTIFICATE OF NEED TO PLACE SCRUBBERS ON BIG SANDY UNIT 2 ARGUING THAT IT WAS THE

LEAST COST OPTION FOR KENTUCKY RATE PAYERS. BUT THAT APPLICATION WAS SUDDENLY WITHDRAWN BY KENTUCKY POWER AND THE COMMISSION MADE NO FINDINGS ON A PLAN THAT WOULD HAVE ALLOWED BIG SANDY UNIT 2 TO CONTINUE TO OPERATE AND SERVE THE NEEDS OF KENTUCKY RATE PAYERS.

I SUBMIT TO YOU, THE MEMBERS OF THE COMMISSION, THAT THESE TWO MATTERS CANNOT BE DECIDED IN ISOLATION. TRANSFERRING THE ASSETS OF THE MITCHELL POWER PLANT AND SHUTTING DOWN BIG SANDY 2 WILL HAVE GREAT CONSEQUENCES TO THE ECONOMY OF EASTERN KENTUCKY AND THE RATE PAYERS OF KENTUCKY POWER.

YOU ARE BEING TOLD SCRUBBING BIG SANDY UNIT 2 FOR ENVIRONMENTAL COMPLIANCE WOULD MEAN A 31% RATE INCREASE. TRANSFERRING THE ASSETS OF MITCHELL WOULD ONLY BE AN 8% INCREASE. DOESN'T 8% SOUND BETTER THAN 31%? IT'S NOT THAT SIMPLE!!

WE CAN ONLY SPECULATE WHY KENTUCKY POWER AND THEIR PARENT, AMERICAN ELECTRIC POWER, HAVE CHANGED THEIR MIND.

WHAT IS SO DIFFERENT ABOUT THESE TWO OPTIONS? BIG SANDY UNIT 2 AND MITCHELL UNITS 1, AND 2 ARE OF THE SAME DESIGN, ROUGHLY 800 MEGA WATTS EACH, AND ALMOST THE SAME AGE WITH SIMILAR OPERATING COSTS. BIG SANDY WAS PLACED IN SERVICE IN 1969 AND THE MITCHELL UNITS 1 AND 2 IN 1971. MITCHELL HAS ALREADY BEEN SCRUBBED FOR ENVIRONMENTAL COMPLIANCE. PURSUANT TO THE 2007 CONSENT DECREE, THAT THE COMMISSION IS NOW WELL AWARE OF, MITCHELL WAS ASSIGNED PRIORITY AMONG AEP'S EASTERN GENERATION FLEET TO BE SCRUBBED FOR SO₂ AND NO_x. BIG SANDY 2 WAS GIVEN UNTIL DECEMBER OF 2015 TO BE SCRUBBED FOR SO₂.

MITCHELL IS LOCATED NEAR MOUNDSVILLE, WEST VIRGINIA AND WAS PAID FOR BY THE RATE PAYERS OF OHIO POWER.

THE BIG SANDY PLANT IS JUST DOWN THE ROAD FROM WHERE YOU SIT TODAY. IT IS AN ASSET THAT WAS PAID FOR BY KENTUCKIANS WHO BY PAYING THEIR ELECTRIC BILLS EVERY MONTH TO KENTUCKY POWER PAID FOR THE CONSTRUCTION, OPERATION AND MAINTENENACE OF THE BIG SANDY POWER PLANT. AND NOW KENTUCKY RATE PAYERS ARE BEING ASKED TO ABANDON THAT ASSET AND ITS POSITIVE IMPACTS ON OUR ECONOMY TO TAKE PARTIAL OWNERSHIP ALONG WITH THE DEBT AND LIABILITIES OF A POWER PLANT LOCATED IN WEST VIRGINIA.

BY ACQUIRING 50% OF THE ASSETS OF MITCHELL, KENTUCKY RATE PAYERS WILL BE PAYING FOR JOBS IN WEST VIRGINIA AND PAYING TAXES TO STATE AND LOCAL GOVERNMENTS IN WEST VIRGINIA. IT HAS BEEN ESTIMATED THAT MITCHELL WILL PAY WEST VIRGINIA \$4 MILLION IN TAXES ANNUALLY INCREASING TO \$6.3 MILLION ANNUALLY IN 2017.

THE \$536 MILLION PRICE TAG ATTACHED TO THE 50% INTEREST IN THE MITCHELL PLANT IS JUST THE BOOK VALUE OF THE ASSET. WHO KNOWS WHAT THE REAL COSTS WILL BE? 50% OF ANY FUTURE ENVIRONMENTAL COSTS AND CAPITAL OUTLAYS WILL BECOME THE OBLIGATION OF KENTUCKY RATE PAYERS. WE WILL FIND OUT MORE ABOUT WHAT THE REAL COSTS ARE WHEN KENTUCKY POWER FILES A RATE CASE LATER THIS SUMMER.

KENTUCKY RATE PAYERS ARE BEING ASKED TO ASSUME 50% OF LIABILITIES OF THE MITCHELL PLANT. THE LIABILITIES OF MITCHELL INCLUDE LONG TERM DEBT INCURRED FOR ENVIRONMENTAL COMPLIANCE IN THE FORM OF POLLUTION

CONTROL BONDS AND DEBT ISSUED UNDER THE WEST VIRGINIA ECONOMIC DEVELOPMENT AUTHORITY. IT IS ANTICIPATED THAT KENTUCKY POWER WILL REFINANCE ITS SHARE OF MITCHELL'S DEBTS AND PLACE THAT DEBT IN THE RATES THEY WILL ASK KENTUCKY RATE PAYERS TO PAY. ACCORDING TO A JANUARY 13TH ARTICLE IN THE COLUMBUS DISPATCH, AEP HAS FOUND CORROSION IN THE NEW SCRUBBERS AT THE MITCHELL PLANT AND I'M SURE KENTUCKY RATE PAYERS WILL BE EXPECTED TO PAY TO FIX THAT PROBLEM.

KENTUCKY POWER'S LEAST COST ANALYSIS IN THE CASE BEFORE YOU DOES NOT INCLUDE THE LOCAL, REGIONAL, SOCIAL AND ECONOMIC COST TO KENTUCKY AND ITS CITIZENS OF SHUTTING DOWN THE BIG SANDY UNIT 2. TO QUOTE ONE OF AEP'S OWN PRESS RELEASES, "COMMUNITIEES THAT HAVE DEPENDED ON THESE PLANTS TO PROVIDE GOOD PAYING JOBS AND SUPPORT LOCAL SERVICES WILL FACE SIGNIFICANT REDUCTIONS IN PAYROLL AND PROPERTY TAXES. THE ECONOMIC IMPACT WILL EXTEND FAR BEYOND DIRECT EMPLOYMENT OF POWER PLANTS AS THOUSANDS OF ANCILLARY JOBS ARE SUPPORTED BY EVERY COAL FUELED GENERATING UNIT."

ABANDONING BIG SANDY UNIT 2 WILL MEAN THE LOSS OF MORE THAN 150 FULL TIME JOBS AT THE PLANT.

IN 2012 BIG SANDY RECEIVED 1,642,000 TONS OF COAL AT \$70 A TON CREATING COAL SALES OF \$115 MILLION. THAT WILL BE LOST ALONG WITH THE SEVERANCE TAXES FROM THAT COAL PAID TO THE STATE AND LOCAL GOVERNMENTS. ONE COUNTY JUDGE EXECUTIVE HAS SAID THE BIG SANDY PLANT IS DIRECTLY RESPONSIBLE FOR 500 COAL JOBS AND THOUSANDS OF OTHER JOBS INDIRECTLY.

LAWRENCE COUNTY, WHERE THE BIG SANDY POWER PLANT IS LOCATED, STANDS TO LOSE \$900,000 IN TAXES INCLUDING \$500,000 A YEAR FOR COUNTY SCHOOLS AND \$60,000 A YEAR FOR THE PUBLIC LIBRARY.

WHEN STOCKPILING COAL, 200 TRUCKS A DAY UNLOAD AT THE BIG SANDY PLANT. THOSE JOBS WILL BE ELIMINATED. VENDOR SALES FOR PLANT MAINTANENCE AND FUEL OIL SALES USED TO RESTART THE UNITS WILL BE ELIMINATED.

APPALACHIAN POWER WILL OPERATE THE MITCHELL PLANT AND THOSE CONTRACT DECISIONS FOR COAL SUPPLIES, COAL TRANSPORTATION AND VENDOR PURCHASES WILL BE MADE BY APPALACHIAN POWER NOT KENTUCKY POWER. IF BIG SANDY UNIT 2 IS RETIRED, KENTUCKY POWER RATE PAYERS WILL PROBABLY BE ASKED TO PAY THE COST OF SHUTTING IT DOWN AND I'M SURE ANY LONG TERM DEBT INCURRED FOR BIG SANDY WILL REMAIN IN KENTUCKY POWER'S RATES. BUT KENTUCKY RATE PAYERS WILL NO LONGER HAVE THE BENEFIT OF HAVING THAT GENERATION HERE IN KENTUCKY.

8% VERSUS A 31% RATE INCREASE? I'M NOT AN ACCOUNTANT AND CERTAINLY NOT A PAID UTILITY CONSULTANT, BUT I DON'T UNDERSTAND THE MATH BEING PUT FORTH BETWEEN THESE TWO PROPOSALS. HOW COULD \$536 MILLION FOR THE TRANSFER OF THE MITCHELL ASSETS RESULT IN AN 8% RATE INCREASE, WHILE THE PROJECTED COSTS TO SCRUB BIG SANDY UNIT 2 OF \$940 MILLION RESULTS IN A 31% RATE INCREASE? IF YOU DOUBLE THE COST OF THE MITCHELL ASSET TRANSFER TO \$1.72 BILLION, THAT SHOULD RESULT IN A 16% RATE INCREASE WHICH WOULD MORE THAN COVER THE COST OF SCRUBBING BIG SANDY UNIT 2.

RECENT PRESS RELEASES BY SOME OF THE ENVIRONMENTAL GROUPS THAT WERE PARTIES TO THE RECENT MODIFICATION TO THE 2007 CONSENT DECREE INDICATE THAT AEP HAS SAID IT WILL SHUT DOWN BIG SANDY UNIT 2. MAYBE THAT'S A DECISION THAT AEP HAS SHARED WITH THEM BUT NOT KENTUCKY'S RATE PAYERS. THE RECENT WRITTEN MODIFICATIONS TO THE CONSENT DECREE DO NOT APPEAR TO REFLECT ANY SUCH AGREEMENT. TWELVE STATES WERE PARTIES TO THE ORIGINAL 2007 CONSENT DECREE.

KENTUCKY WAS NOT.

BECAUSE KENTUCKY WAS NOT A PARTY, I BELIEVE OUR OBLIGATION SHOULD BE TO KENTUCKY AND KENTUCKY RATE PAYERS.

MAKE NO MISTAKE ABOUT IT, DESPITE THE ASSERTION THAT TRANSFERING THE ASSETS OF MITCHELL IS A LEAST COST OPTION; THIS IS NOT A DECISION THAT IS BEING MADE FOR THE BEST INTEREST OF KENTUCKY AND ITS RATE PAYERS. THIS IS A CORPORATE DECISION TO MOVE GENERATION ASSETS FROM OHIO'S DEREGULATED MARKET, WHERE THEY ONLY GET MARKET PRICES FOR POWER TO REGULATED MARKETS IN KENTUCKY AND WEST VIRGINIA WHERE STATE LAW ALLOWS THEM TO RECOVER ALL THEIR OPERATING AND CAPITAL EXPENSES, PLUS A GUARANTEED RATE OF RETURN. KENTUCKY POWER'S CURRENT ALLOWED RATE OF RETURN IS 10.5%. AEP OR OHIO POWER COULD NOT GET THAT SORT OF RETURN IN THE CURRENT PJM MARKET.

BEFORE I CONCLUDE LET ME COMMENT ON THE REQUEST BY KENTUCKY POWER TO CREATE A REGULATORY ASSET OF \$30 MILLION SPENT ON RATE CASES SINCE 2004 WHICH THEY WILL SEEK TO RECOVER LATER. INCLUDED IN THE \$30 MILLION IS \$12 MILLION THEY SPENT ON THE APPLICATION FOR A CERTIFICATE OF NEED TO

SCRUB BIG SANDY 2, A REQUEST THAT WAS IN THE END WITHDRAWN AT THE REQUEST OF KENTUCKY POWER. SHOULD KENTUCKY'S RATE PAYERS BE ASKED TO PAY FOR KENTUCKY POWER'S INDECISION? WHY SHOULD KENTUCKY'S RATE PAYERS PAY \$12 MILLION FOR DESIGN OF SO₂ SCRUBBERS THAT AEP'S OWN WITNESS TESTIFIED HAVE BEEN ALREADY DESIGNED AND PLACED ON 8,400 MW OF AEP GENERATION?

AT THIS POINT I PROBABLY HAVE GONE BEYOND MY ALLOTTED TIME BUT THERE IS SO MUCH TO TALK ABOUT IN THE DECISION BEFORE THIS COMMISSION. LET ME URGE THE COMMISSION TO NOT CONSIDER JUST THE MATTER BEFORE YOU IN THIS CASE, THE TRANSFER OF ASSETS OF THE MITCHELL PLANT. THAT DECISION MUST BE WEIGHED AGAINST THE IMPACT OF SHUTTING DOWN BIG SANDY UNIT 2 AND THE ECONOMIC IMPACT IT WILL HAVE ON THE REGION AND KENTUCKY RATE PAYERS. THIS IS A MAJOR DECISION FOR THE COMMONWEALTH OF KENTUCKY. THERE ARE TOO MANY ISSUES THAT SHOULD BE CONSIDERED IN WHETHER TO ALLOW BIG SANDY UNIT 2 TO CONTINUE TO OPERATE VERSUS PURCHASING POWER FROM ANOTHER STATE. WHAT BOTHERS ME THE MOST IS THE LOSS OF JOBS AT THE BIG SANDY PLANT AND THROUGHOUT OUR COMMUNITIES. IF WE ACCEPT THE TRANSFER OF MITCHELL THOSE JOBS WILL GO TO WEST VIRGINIA AND THE BENEFITS TO OUR LOCAL ECONOMY WILL GO WITH THEM. THE RATE PAYERS OF KENTUCKY BUILT THE BIG SANDY POWER PLANT. IT PROVIDES JOBS, TAX REVENUES AND ECONOMIC ACTIVITY THROUGHOUT THE REGION FOR THE PEOPLE WHO HAVE FOR MANY YEARS PAID KENTUCKY POWER FOR ITS ELECTRIC SERVICE. I HOPE THE COMMISSION WILL AGREE WITH ME THAT THIS IS A DECISION THAT DESERVES VERY CAREFUL CONSIDERATION.

THANK YOU.