

Commonwealth of Kentucky

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RECEIVED

August 15, 2013

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PUBLIC SERVICE
COMMISSION

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40602-0615

RE: Case No. 2012-00578

Dear Mr. Derouen:

Please find the attached the post-hearing comments of Representative Rocky Adkins.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas Dorman".

Thomas Dorman
Chief of Staff
Majority Floor Leader's Office

I APPRECIATE ONCE AGAIN THE OPPORTUNITY TO COMMENT ON THE MATTER BEFORE THIS COMMISSION CONCERNING THE TRANSFER OF 50% OF THE MITCHELL GENERATION ASSETS TO KENTUCKY POWER.

OBSERVING THESE PROCEEDINGS AND LISTENING TO THE DISCUSSION OF THE ISSUES HAS GIVEN ME A GREAT RESPECT FOR THE PROCESS, THE COMMISSION AND ITS STAFF. THIS IS INDEED A CROSSROADS FOR KENTUCKY POWER. THESE ARE COMPLEX ISSUES AND THE DECISIONS TO BE MADE REGARDING THEM WILL FOREVER IMPACT KENTUCKY POWER'S RATE PAYERS, MY CONSTITUENTS, THE REGION I REPRESENT AND ALL OF EAST KENTUCKY.

THIS COMMISSION KNOWS WELL BY NOW MY POSITION IN THIS MATTER. I HOLD HOPE THAT IN DECIDING WHAT IS BEST FOR THE FUTURE OF KENTUCKY POWER AND ITS RATE PAYERS THIS COMMISSION WILL ALSO CONSIDER THE OPTION TO SCRUB BIG SANDY UNIT 2. I UNDERSTAND THE MATTER BEFORE YOU NOW IS APPROVAL OF THE SETTLEMENT AGREEMENT, BUT I BELIEVE THIS COMMISSION'S DELIBERATION DESERVES CAREFUL CONSIDERATION OF ALL OF THE OPTIONS. THE COMMISSION SHOULD NOT BE DISTRACTED BY A SHELL GAME PLACING THE OPTION TO SCRUB BIG SANDY 2 UNDER SHELL NUMBER ONE, TRANSFERRING 50% OF THE MITCHELL PLANT UNDER SHELL NUMBER TWO AND THE SETTLEMENT AGREEMENT UNDER SHELL NUMBER THREE.

AS MORE QUESTIONS HAVE BEEN ASKED IN THIS PROCEEDING MORE COSTS ASSOCIATED WITH THE TRANSFER OF THE MITCHELL PLANT HAVE BEEN IDENTIFIED AND THE CLOSER THE COSTS OF SCRUBBING BIG SANDY 2 AND ACQUIRING MITCHELL HAVE BECOME. WHAT EARLY ON WAS IDENTIFIED BY THE COMPANY AS A 31% RATE INCREASE VERSUS AN 8% RATE INCREASE BECAME A LOWER 25.59% RATE INCREASE TO SCRUB BIG SANDY 2 VERSUS 13.98% TO TRANSFER MITCHELL AS A RESULT OF STAFF DATA REQUESTS. IF YOU ACCEPT KENTUCKY POWER'S RECENT RATE FILING IT HAS BECOME A 25.59% VERSUS 23.9% RATE INCREASE.

THESE PROCEEDINGS HAVE BROUGHT TO LIGHT MORE ABOUT THE ACTUAL COST TO KENTUCKY POWER AND ITS RATE PAYERS OF TRANSFERRING 50% OF THE MITCHELL PLANT. THE PROJECTED BOOK VALUE OF MITCHELL IS SAID TO BE \$536

MILLION DOLLARS BUT THAT COMES WITH ASSUMING 50% OF ITS DEBT AND LIABILITIES ESTIMATED AT \$162 MILLION DOLLARS. KENTUCKY POWER RATE PAYERS WILL BE ASKED TO PAY \$184 MILLION THROUGH THE ENVIRONMENTAL SURCHARGE, THE REMAINING COSTS OF SCRUBBING MITCHELL TO COMPLY WITH THE 2007 CONSENT DECREE. NOT ONLY WILL KENTUCKY RATE PAYERS BE ASKED TO ASSUME MITCHELL'S LIABILITIES AND DEBTS, UNDER THE SETTLEMENT AGREEMENT WE ARE BEING ASKED TO PAY THE COST OF SHUTTING DOWN BIG SANDY 2, RETIRE THE COAL RELATED ASSETS OF BIG SANDY 1 AND PAY KENTUCKY POWER FOR THE UNDEPRECIATED INVESTMENT IN BIG SANDY 2 ESTIMATED TO BE \$238.78 MILLION. AND WE'RE BEING ASKED TO PLACE THOSE COSTS IN RATES TO BE PAID OVER THE NEXT 25 YEARS THROUGH AN ASSET TRANSFER RIDER. I THOUGHT RATE PAYERS ONLY PAID FOR ASSETS THAT ARE "USED AND USEFUL". WILL KENTUCKY RATE PAYERS HAVE TO PAY FOR 25 YEARS FOR THE NO_x SCRUBBERS PLACED ON BIG SANDY 2 AFTER THEY'RE NO LONGER IN SERVICE? AND LET'S GET BACK TO COMPARING APPLES WITH APPLES. PAY BACK OF THE COST OF TRANSFERRING THE MITCHELL PLANT HAS BEEN PRICED OVER 20 YEARS. THE COST OF SCRUBBING BIG SANDY 2 WAS PRICED OVER 10 YEARS.

WHAT KIND OF DEAL IS THIS FOR KENTUCKY AND KENTUCKY POWER'S RATE PAYERS?

WE'RE BEING ASKED TO TAKE OVER A GENERATION FACILITY IN WEST VIRGINIA ALONG WITH ITS DEBT AND LIABILITIES AND PAY FOR MUCH OF THE COST FOR IT TO MEET ENVIRONMENTAL COMPLIANCE WHILE GIVING UP 150 OR MORE GOOD PAYING JOBS, \$900 THOUSAND A YEAR IN PROPERTY TAXES, 2 MILLION TONS A YEAR IN COAL SALES AND PAY THE COST OF SHUTTING DOWN OUR OWN POWER PLANT IN KENTUCKY, MOST OF WHICH WE HAVE ALREADY PAID FOR.

THE BIG SANDY AND MITCHELL PLANTS ARE COMPARABLE FACILITIES IN AGE AND DESIGN WITH ALMOST THE SAME OPERATIONAL COST. MITCHELL WAS SCRUBBED FIRST BECAUSE AT THE TIME OF THE 2007 CONSENT DECREE IT WAS AMONG THE DIRTIEST PLANTS IN AEP'S EASTERN GENERATION FLEET. YET NOW WE'RE BEING TOLD IT IS A "CROWN JEWEL".

THIS COMMISSION HAS ALL THE MORE REASON TO BE CAUTIOUS IN DEALING WITH THESE ISSUES BECAUSE OF THE MANNER IN WHICH KENTUCKY POWER AND ITS PARENT HAVE CONDUCTED THEMSELVES. IT WASN'T UNTIL KENTUCKY POWER FILED TO SCRUB BIG SANDY 2 THAT THE KENTUCKY COMMISSION BECAME AWARE OF THE NEGOTIATED 2007 CONSENT DECREE AND ITS RESULTING COSTS TO KENTUCKY POWER RATE PAYERS. IN DECEMBER 2011 KENTUCKY POWER FILED ITS APPLICATION WITH THE KENTUCKY COMMISSION TO SCRUB BIG SANDY 2 AND CONTINUED TO PURSUE THE APPLICATION UNTIL IT WAS ABRUPTLY WITHDRAWN ON MAY 30, 2012. YET IT WAS REPORTED AT AN INVESTORS MEETING IN NEW YORK CITY ON FEBRUARY 10, 2012, AEP ANNOUNCED ITS PLAN TO TRANSFER MITCHELL TO APPALACHIAN POWER AND KENTUCKY POWER TO INCREASE ITS PERCENTAGE OF REGULATED ASSETS.

THIS COMMISSION SHOULD NOT BE RUSHED TO JUDGEMENT IN THESE IMPORTANT ISSUES. IT IS THE COMPANY THAT SET THE TIME TABLE BY THE AGREEMENTS IT HAS ENTERED INTO REGARDING ENVIRONMENTAL COMPLIANCE AND THEIR TIMING IN BRINGING THESE ISSUES TO THE KENTUCKY COMMISSION FOR DECISION. I HOPE THE COMMISSION WOULD NOT ALLOW APPROVAL OF THE SETTLEMENT AGREEMENT TO OBLIGATE KENTUCKY POWER'S RATE PAYERS TO ALL THE ADD ONS IN THE AGREEMENT OR APPROVE THE TRANSFER OF MITCHELL AND THEN FIGURE OUT IN A SUBSEQUENT RATE CASE WHAT IT REALLY COSTS. THIS COMMISSION DESERVES TO KNOW UP FRONT WHAT THOSE COSTS ARE. LET'S IDENTIFY THE REAL COST OF TRANSFERRING MITCHELL AND THE REAL COST OF SCRUBBING BIG SANDY 2 AND THEN DETERMINE WHAT IS IN THE BEST INTEREST OF KENTUCKY RATE PAYERS.

IF THE COSTS ARE CLOSE, AND UPON FURTHER EXAMINATION I THINK THEY WILL BE EVEN CLOSER, I BELIEVE KENTUCKY POWER'S RATE PAYERS WOULD BE WILLING TO PAY KENTUCKY POWER A REASONABLE RATE OF RETURN FOR CONTINUED OPERATION OF THE BIG SANDY 2 RATHER THAN A SIMILAR RATE FOR GENERATION LOCATED IN WEST VIRGINIA OVER WHICH THEY HAVE LITTLE CONTROL AND DERIVE LITTLE ECONOMIC BENEFIT.