



CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY (CPCN): THE PSC PROCESS

July 2018



Prior to beginning any major capital project, a utility must apply for a certificate of public convenience and necessity (CPCN)



Applicable review process:

Certificate of public convenience and necessity (CPCN)

KRS 278.020 (1)

Application of the process is determined by statute,
regulation and legal precedent



Key points:

- Utilities are required to provide adequate service (KRS 278.030) – this includes making prudent investment in facilities
- Statute (KRS 278.020) is general – parameters of PSC decision have evolved over time through legal precedents
- Standards are largely within the context of other issues, such as keeping rates as low as possible



NEED:

The applicant must show that a facility is needed. In general terms, need is considered to mean necessary for the provision of adequate, reliable and safe service.



NEED:

A utility must show that it has considered a range of reasonable options for meeting a need.



WASTEFUL DUPLICATION:

Wasteful duplication of facilities is prohibited. This is to prevent overbuilding or overinvestment that drives up rates.



PROHIBITION ON WASTEFUL
DUPLICATION LEADS TO THE
REQUIREMENT FOR ADOPTION
OF THE *LEAST-COST REASONABLE
ALTERNATIVE*



FINDING THE LEAST-COST REASONABLE ALTERNATIVE

- Consider a range of reasonable alternatives
- Evaluate over the projected lifetime of the investment
 - Look beyond simply the up-front costs of an option
 - Examine all options on an equal footing
 - Determine which has the most favorable cost:benefit ratio over the long term



Evaluation of a proposed investment from the perspective of its long-term costs and benefits is critical because, once the PSC grants a CPCN, that approval carries with it a presumption in favor of the utility's future recovery of reasonable costs associated with the project.



**KENTUCKY PUBLIC
SERVICE COMMISSION**

Case 2018-00005

(filed January 10, 2018)

***JOINT APPLICATION OF LOUISVILLE GAS AND
ELECTRIC COMPANY AND KENTUCKY UTILITIES
COMPANY FOR A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY FOR FULL
DEPLOYMENT OF ADVANCED METERING SYSTEMS***



History

- Advanced metering system (AMS) deployment proposed in 2016 rate case
- Withdrawn as part of settlement
- Settlement created collaborative to review AMS issues
 - Five full-day meetings held
 - Open to rate case participants and other interested parties
 - Participants included Attorney General; Louisville & Lexington metro governments; school districts; groups representing low-income ratepayers; industrial users; environmental groups



Proposal

- Deployment of communication backbone – late 2018
- Meter deployment start – 2Q 2019
- Meter deployment complete – 1Q 2021
- Meter numbers:
 - LG&E electric – 431,000
 - LG&E gas modules – 334,000
 - Kentucky Utilities – 531,000
 - TOTAL: 962,000 electric meters; 1,296,000 all meters



Meters

- All capable of two-way communication
 - Transmit usage data to company
 - Send software updates, requests for meter reading
 - Electric meters capable of remote service switching
 - Customer consumption data transmitted to web portal for customer use
 - Could be used in conjunction with time-based or dynamic pricing



Projected costs and benefits (from KU/LG&E application)

Deployment costs:

- LG&E electric \$103.7 M
- LG&E gas \$ 61.5 M
- KU \$146.7 M

TOTAL LIFECYCLE COSTS through 2040 \$502.4 M



Projected costs and benefits (from KU/LG&E application)

Lifecycle savings:

- Operational \$425 M
- Eportal \$158 M
- Loss recovery \$402 M

TOTAL LIFECYCLE SAVINGS through 2040	\$985 M
TOTAL LIFECYCLE COSTS through 2040	\$502 M
TOTAL NET BENEFIT through 2040	\$483 M



CUSTOMER OPT-OUTS

KU/LG&E are proposing to allow customers to opt out of advanced meter deployment, but opt-outs will have a fee to recover the utility's cost of providing service without the AMS capability.

Utility Service	Opt-Out Set-Up Fee**	Recurring Monthly Opt-Out Fee
KU	\$72.71	\$32.45
LG&E electric	\$57.86	\$22.70
LG&E gas	\$57.86	\$21.80

*** Opt-out set-up fee waived for customers opting out prior to initial meter deployment*



INTERVENORS

- Kentucky Office of Attorney General
- Kentucky Industrial Utility Customers, Inc. (KIUC)
- Association of Community Ministries
- Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc.
- Metropolitan Housing Coalition



WHAT'S NEXT

July 24 – formal evidentiary hearing

- At PSC offices – 211 Sower Boulevard, Frankfort
- Begins at 9 AM EDT – public comments taken at start
- Streamed live at psc.ky.gov

Post-hearing discovery, briefs (if any)

PSC takes case under advisement

Decision issued via final order – no statutory deadline

(utilities had requested 6/1/2018)



WRITTEN PUBLIC COMMENTS

Accepted through close of record – either at conclusion of hearing or at deadline for filing of post-hearing discovery or briefs

By mail: Kentucky Public Service Commission, 211 Sower Boulevard,
PO Box 615, Frankfort, KY 40602-0615

By e-mail: psc.info@ky.gov

Include name and place of residence

Cite case number 2018-00005



KENTUCKY PUBLIC SERVICE COMMISSION

FOR MORE INFORMATION

Send questions to:

psc.info@ky.gov

or contact:

Andrew Melnykovych
Public Information Officer
502-782-2564



QUESTIONS???