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NEWS RELEASE

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PSC Brings Rate Relief to Kentucky Power Co. Customers

Decisions in base rate and demand-side management cases will reduce total burden on residential ratepayers through 2018

FRANKFORT, Ky. (Jan. 18, 2018) – The Kentucky Public Service Commission (PSC) has trimmed by about four-fifths a base rate increase sought by Kentucky Power Co. and has substantially scaled back the company's demand-side management (DSM) programs and the customer surcharges that pay for those programs.

The net effect of the two orders issued today will be that residential customers using the same amount of electricity will pay less in 2018 than they did last year. Rates for all other classes of customers also will be lower than the amounts requested by Kentucky Power.

An average monthly residential bill has been \$157.83, a figure that includes base rates and all surcharges, but not local government fees and taxes. That same bill now will be \$151.45, a decrease of \$6.38, or about 4 percent. Individual bills will vary with usage.

Approximate average monthly usage for Kentucky Power residential customers is 1,300 kilowatt-hours. A kilowatt-hour is the amount of electricity used by a 100-watt lightbulb in 10 hours.

Kentucky Power had sought to increase its annual revenue from base rates by \$60.4 million, or about 11 percent. The utility later reached a settlement agreement with most of the parties to the rate case on an increase of \$31.8 million. The Kentucky Office of Attorney General, which did not participate in the agreement, filed expert witness testimony supporting a revenue increase of \$39.8 million.

The PSC granted Kentucky Power an increase in revenue from base rates of \$12.35 million, a reduction of \$19.45 million from the amount in the settlement. The PSC's lower figure is largely the result of a reduction of \$13.9 million to account for the effect of federal corporate income tax rate cuts that went into effect January 1. The remainder of the PSC's reduction from the settlement figure comes through other adjustments, mostly to the recovery of purchased power costs.

The PSC also discontinued nearly all of Kentucky Power's DSM programs, authorizing the continuation of only the program to help low-income residential ratepayers reduce energy consumption. Spending on all DSM programs – residential and commercial - will fall from about \$6 million per year to about \$2 million in 2018 and will decline significantly in ensuing years.

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Residential DSM programs are funded by a surcharge on residential ratepayers. Because of the program changes, the average Kentucky Power residential customer will receive a monthly credit of \$1.48 as Kentucky Power returns DSM funds it has already collected. That is a decrease of nearly \$12 in the average DSM surcharge for residential customers.

The PSC rejected Kentucky Power's proposal to revise its bill format to eliminate line items detailing various surcharges and riders. The PSC ordered that the line items be retained in the interest of transparency for ratepayers.

Other key actions taken by the PSC in the rate case include:

- Reduced – from the 9.75 percent in the settlement to 9.70 percent – the authorized return on investment for company shareholders.
- Accepted a settlement provision that defers \$50 million in expenses related to Kentucky Power's purchases of power from the Rockport plant in Indiana, which is owned and operated by another company within the American Electric Power Co. (AEP) system. Those costs will be addressed in a future rate case. The contract is scheduled to expire in 2022.
- Rejected a settlement provision that called for residential customers to continue paying a monthly charge to fund economic development efforts in Kentucky Power's service territory. Company shareholders contribute a matching amount. The settlement called for the residential fee to be cut from 15 cents to ten cents, and for commercial customers to begin paying into the fund at \$1 per month. The PSC eliminated the residential charge altogether and reallocated the residential customer contribution into a fund to assist low-income ratepayers who are having trouble paying their bills. As a result, the monthly charge for the assistance program will increase from the current 15 cents to 30 cents, rather than the 20 cents proposed by Kentucky Power. Company shareholders will continue to match ratepayer payments into the both funds.
- Accepted a settlement provision that increases the monthly service charge for residential customers to \$14. Kentucky Power's application called for a monthly service charge of \$17.50.
- Approved Kentucky Power's 2017 environmental compliance plan, which includes \$3.9 million in expenses associated with air pollution controls at the Rockport plant. Those costs will be recovered, as permitted under Kentucky law, through the company's environmental surcharge. Despite the added project, the surcharge initially will decline as a result of the federal corporate tax cut.
- Eliminated a separate rate for schools. The settlement called for the rate, which had been extended to 30 schools on a pilot basis, to be made permanent and available to all schools. The PSC found that continuation of the rate could not be justified based on the power usage characteristics of the schools and because it would result in other customers subsidizing the schools.
- Approved a pilot program that will structure rates in a way that is designed to save money for residential customers who are able to shift their usage away from times of peak system demand. Kentucky Power will make the program available to as many as 1,000 customers on an experimental basis.

In the DSM case, the PSC found that continuation of high levels of spending on the program could no longer be justified. DSM programs are authorized under Kentucky law and are intended to reduce or defer the need for new electric generating capacity by encouraging ratepayers to reduce usage, often by providing financial incentives to do so.

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The PSC in February 2017 opened an investigation of Kentucky Power's DSM programs, noting that the costs had dramatically increased. The average DSM surcharge on a residential bill had risen about 20-fold, from 51 cents per month to \$10.61.

At the same time, a sagging economy in Kentucky Power's service territory had led to decreased demand for electricity, a fact subsequently cited by the company as a reason for seeking a revenue increase. The PSC noted at the time that the economic conditions also exacerbated the difficulty many customers have in paying their bills.

In today's DSM case order, the PSC found that Kentucky Power has and will continue to have excess generating capacity. Under those circumstances, continued annual DSM expenditures of \$6 million cannot be justified, said the PSC, notwithstanding an agreement to do so through a settlement in an earlier PSC proceeding.

The PSC ordered Kentucky Power to discontinue all DSM programs, with the exception of energy efficiency assistance to low-income ratepayers, and to adjust the surcharge accordingly, resulting in a credit to residential customers.

Once Kentucky Power has completely refunded prior DSM over-collections, the surcharge will return, but at a significantly lower level.

Additionally, the full effect of the reduction in the federal corporate income tax has yet to be calculated. A case before the PSC will determine what further rate changes are needed.

Kentucky Power, which is a subsidiary of AEP, has about 168,000 customers in 20 counties in eastern Kentucky.

The utility filed its rate adjustment application in June 2017 and amended it in August 2017. A formal public hearing in the case was held December 6 through December 8. The PSC also held public comment meetings in November in Prestonsburg, Hazard and Ashland.

Other parties to the case, in addition to the Attorney General, included the Kentucky Industrial Utility Customers, the Kentucky Commercial Utility Customers (KIUC), the Kentucky School Boards Association, the Kentucky League of Cities, the Kentucky Cable Telecommunications Association, and Wal-Mart Stores East/Sam's East.

A hearing in the DSM case was held last week. The other parties participating in that case were the Attorney General, KIUC and the Sierra Club.

Today's orders and other documents in the cases, as well as videos of the hearings and public meetings, are available on the PSC website, psc.ky.gov. The cases numbers are 2017-00179 (rate case) and 2017-00097 (DSM case).

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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