Andy Beshear
Governor

Rebecca W. Goodman
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Michael J. Schmitt
Chairman

Kent A. Chandler
Vice Chairman

Talina R. Mathews
Commissioner

NEWS RELEASE

Contact: Karen Wilson
502.330.2454
KarenL.Wilson@ky.gov

PSC Issues Order in Kentucky Power Rate Case
First Base Rate Increase to Residential Class Since 2015

FRANKFORT, Ky. (Jan. 13, 2021) – Today, the Kentucky Public Service Commission (PSC) issued an Order in the Kentucky Power rate case (2020-00174). Kentucky Power filed an application for approval of an increase in its revenues on July 15, 2020. The application also included a request for installation of advanced metering infrastructure (AMI), a grid modernization rider, an electric vehicle charging provision, and changes to the company's net metering tariff, among other items.

Kentucky Power proposed an annual increase in its electric revenues of $70.1 million. The PSC reduced the base rate increase by $17.7 million to a final base revenue increase of $52.4 million. As explained below, this base revenue increase was significantly offset by a number of additional reductions to Kentucky Power's rates, including an annual surcredit of $40 million that will run for three years.

To mitigate the rate impact, the Commission accelerated the amortization of the excess unprotected accumulated deferred income tax (ADIT) that resulted from the 2018 Tax Cut and Jobs Act. The amortization period of excess ADIT was changed from 18 years to 3 years, and the PSC instructed Kentucky Power to follow up with a review of rates at the end of three years, as savings may be realized through the expiration of long-term power contracts and their associated environmental costs. The PSC ordered that Kentucky Power file a general base rate case for rates effective January 1, 2024. Kentucky Power has been returning excess ADIT through its Federal Tax Cut (FTC) surcredit. With the PSC's mitigation actions, the revised FTC surcredit applies the same allocation where the total credit is allocated between residential and non-residential customers based upon each group's percentage of total revenues. For residential customers only, the rate credits will continue to be higher in the winter heating months of December through March to provide greater benefits during those high-usage months. For a residential customer using 1100 kWh per month, the credit reflected in the FTC surcredit during a winter heating month will be $24.05.

In the final Order, the PSC awarded Kentucky Power a Return on Equity (ROE) of 9.3 percent, down from the proposed 10.0 percent. In addition, the PSC lowered the ROE associated with specific riders such as the Big Sandy Decommissioning Rider and the Environmental Surcharge finding that due to the lower risk and removal of much of the regulatory lag, an ROE of 9.1 percent was reasonable. ROE reflects a utility's shareholders allowed profit margin.

-More-

Today's Order revises Kentucky Power's tariff on Off System Sales (OSS) to reflect that all OSS margins are to be apportioned to ratepayers (modifying the current tariff that retains 25 percent of the revenues from OSSs to benefit shareholders). Today's Order also significantly lowers certain nonrecurring charges by removing labor costs incurred during business hours.

The Order denies several items requested by Kentucky Power, including a Certificate of Public Convenience and Necessity (CPCN) for Advance Metering Infrastructure (AMI) system and a related Grid Modernization Rider to recover annual costs to install the AMI system. The estimated cost to deploy the AMI system is more than $35 million; however, in the absence of data to support the cost estimates, and without sufficient evidence to show costs of alternative proposals, the PSC denies the CPCN. Denying the Grid Modernization Rider resulted in a savings of over $1.6 million. This savings is not reflected in the base revenue reduction or the FTC surcredit.

The Order also stresses the imperative for Kentucky Power to address persistent issues regarding transmission planning and investment activities that negatively affect Kentucky Power's customers, both in terms of rates and quality of service.

In recent cases, especially in light of the negative impact on customers from the Covid-19 pandemic, the PSC has examined the efficacy and fairness of utility late bill payment penalties. As it has done in other recent cases, the PSC has directed Kentucky Power to cease imposing such fees on residential customers.

For residential customers, the PSC is authorizing a $17.50 monthly customer charge, an increase from $14.00, and an energy charge of .11032 per kWh. For a residential customer with an average monthly usage of 1100 kWh, the average bill increases $18.59, or 15.46 percent, from $120.26 to $138.85. With the FTC surcredit of $24.05 applied during the winter months, the average monthly bill in the winter will actually decrease to $114.50, or 4.54 percent. Although there will be an FTC surcredit in non-winter months, it is less than the winter credit, and results in a net increase in overall residential bills. The last base rate increase for residential customers occurred in 2015.

Under Kentucky law, the PSC's standard of review of a request to increase rates is based on a determination of "fair, just and reasonable," and the utility must demonstrate that a proposed rate increase is just and reasonable. As such, the PSC is not making a decision on Kentucky Power's proposed changes to the Net Metering tariff at this time. Legislation enacted in 2019 removed the one-to-one bill credit for net metering customers and authorized utilities to propose a replacement value for a customer-generator's energy. Kentucky Power proposed a rate, but did not provide sufficient evidence to support it. As this is the first case to come before the PSC since the law changed, the PSC will be working with a consultant to ensure there is sufficient evidence to support changes to the existing tariff. Within 15 days of this Order, Kentucky Power is to file a written notice with the PSC if it intends to place the proposed new tariff into effect.

The PSC also directed Kentucky Power to indicate by letter within 15 days whether the company will forego a significant equity payment it receives from customers that resulted from a settlement nearly two decades ago. Kentucky Power offered in its application to forego the payment to "mitigate" the impact its proposed increase would have on customers, but only if the PSC approved its proposals in their entirety.

-More-

The Order makes clear that such a regulatory quid pro quo is inappropriate and unprecedented. The total amount of excess equity payment related to long-term power contracts, referred to as the Capacity Charge, that Kentucky Power can choose to forego is $6.2 million in 2021 and nearly $5.8 million in 2022.

Intervenors in the case were the Attorney General, by and through the Office of Rate Intervention; Kentucky Industrial Utility Customers, Inc.; Walmart Inc.; Kentucky Solar Industries Association, Inc.; Mountain Association for Community Economic Development, Kentuckians for the Commonwealth, and Kentucky Solar Energy Society (collectively, Joint Intervenors); SWVA Kentucky, LLC; and Sierra Club.

The PSC conducted public meetings on Nov. 13 and 16, 2020. The evidentiary hearing was conducted on Nov. 17-20 and Nov. 23-24, 2020.

Today's order and other records in the case are available at psc.ky.gov. The case number is 2020-00174.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

-END-