

Steven L. Beshear
Governor

Leonard K. Peters, 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

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

NEWS RELEASE

Embargoed for 1 pm release 6-2-2011

Contact:
Andrew Melnykovich
502-564-3940, ext. 208
502-330-5981 (cell)

PSC Describes Legal Basis for Environmental Surcharges *State law authorizes recovery of compliance costs*

FRANKFORT, Ky. (June 2, 2011) – The Kentucky Public Service Commission (PSC) today told state lawmakers how it reviews the coal-related environmental compliance costs that electric utilities in Kentucky are entitled to pass on to their customers.

State law “grants a utility the presumption of the timely recovery of environmental compliance costs,” PSC Executive Director Jeff Derouen said in testimony before the Joint Interim Committee on Agriculture and Natural Resources. “In other words, if a utility is required to incur environmental compliance costs, it is entitled to recover those costs through its rates, in the form of the environmental surcharge.”

However, the PSC has the authority to review a utility’s environmental compliance plans and the associated costs and surcharges, he said. The PSC determines whether the utility has made reasonable and cost-effective decisions in how it complies with federal, state or local environmental regulations; whether its compliance costs, including operating expenses, are reasonable; and the rate of return a utility is allowed to earn on capital investments made in connection with environmental compliance, Derouen said.

Derouen stated that the legal basis for recovery of environmental costs is set forth in a statute enacted in 1992 by Kentucky General Assembly. The statute, which established the environmental surcharge mechanism, applies to all environmental compliance costs incurred as the result of burning coal to produce electricity, he said.

“It applies not only to requirements under the federal Clean Air Act and its amendments, but also to any other federal, state or local environmental requirements that apply to emissions or waste products generated by coal combustion,” Derouen said. The law “also requires that the surcharge be listed on an electric bill as a separate line item, so that environmental compliance costs are apparent to customers.”

PSC Describes Legal Basis for Environmental Surcharges – Page 2

The law recognizes that utilities must comply with environmental requirements, Derouen said. The PSC cannot decide whether such requirements are appropriate, but can only review the costs of complying with the requirements, he said.

Derouen also described the process by which the PSC considers environmental compliance plans and associated surcharges, noting that it differs from general rates cases. Environmental compliance cases are on a compressed timeline and also may include requests for approval of new construction projects through certificates of public convenience and necessity, he said.

Derouen concluded his prepared remarks with an overview of the PSC process for consideration of requests for construction certificates.

The PSC appeared before the committee at the invitation of co-chairmen Sen. Brandon Smith and Rep. Jim Gooch. Representatives of Kentucky's electric utilities also testified at the meeting.

The full text of Derouen's remarks and an accompanying PowerPoint presentation are available on the PSC website, psc.ky.gov.

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 and has approximately 100 employees.

-30-

FOLLOW THE PSC ON TWITTER AT KYPSC