

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For)
(1) Approval of A Deviation From The Requirements)
Of 807 KAR 5:006, Section 8(1)(d)(3)(d) And 807 KAR)
5:006, Section 11(5) To Permit The Company To)
Establish Additional Means Of Making)
Refunds; (2) For Authority To Amend Its Tariffs To)
Establish Additional Means Of Making Refunds;)
And (3) For All Other Required Approvals and Relief)

Case No. 2015-00364

APPLICATION

Kentucky Power Company applies to the Public Service Commission of Kentucky pursuant to 807 KAR 5:006, Section 28 and 807 KAR 5:011, Section 6(2)(a) for an Order: (1) granting Kentucky Power a deviation from the requirements of 807 KAR 5:006, Section 8(1)(d)(3)(d) and 807 KAR 5:006, Section 11(5) to authorize Kentucky Power to implement the use of prepaid card as an additional method of making refunds to residential customers; (2) approving the amendment of Terms and Conditions of Service 4(E) (Tariff Sheet 2-3) and the addition of Terms and Conditions of Service 20 (Tariff Sheet 2-11) to permit Kentucky Power to implement the use of prepaid card and electronic funds transfer as additional methods of making refunds to residential customers; and (3) granting all other required relief or approvals. In support thereof Kentucky Power states:

APPLICANT

1. Kentucky Power was organized in 1919 under the laws of the Commonwealth of Kentucky.¹ The Company's mailing address is 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190. Its electronic mail address is kentucky_regulatory_services@aep.com . Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. The Company serves approximately 170,000 retail customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. In addition, the Company also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010. [807 KAR 5:001, Section 14].

2. Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc.

Current Requirements And Provisions Regarding Deposit Refunds

3. 807 KAR 5:006, Section 8(1)(d)(3)(d) provides in pertinent part that deposit refunds "shall be made either by check, electronic funds transfer, or by credit to the customer's account...." The use of prepaid cards is not currently identified as a permitted method of refunding deposits.

¹ A certified copy of the Company's Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company's November 16, 2015 Certificate of Existence is attached as **EXHIBIT 1**.

4. 807 KAR 5:006, Section 11(5) prescribes the form to be used by a utility to notify customers of refunds or back billing resulting from adjustments as a result of meter tests. It requires in pertinent part that the notice include the following language: “If you desire a cash refund, rather than a credit to your account, of any amount overbilled, you shall notify this office in writing within seven (7) days of the date of this notice.” The notification requirement likewise does not identify prepaid cards as a permitted method to refund overbilled amounts.

5. Kentucky Power’s tariffs reflect in part the provisions of 807 KAR 5:006, Section 8(1)(d)(3)(d). Terms and Conditions of Service 4(E) (Tariff Sheet 2-3) provides that deposits will be refunded by “check or by credit to the Customer’s bill.” Like the regulation, the Company’s current tariff does not permit the use of prepaid cards or electronic funds transfers to refund deposits.

Prepaid Cards

6. Prepaid cards are a form of noncash transfer of funds. Prepaid cards “access funds in special-purpose prepaid accounts designed to support various types of special-purpose prepaid card programs...”² “Many prepaid cards are issued for fixed amounts as rebate or gift cards, while others are issued by employers, or purchased by the user and may be reloaded with value multiple times.”³ “Prepaid cards are used both for special purposes by individuals who have a traditional debit card or by individuals who want the convenience of a debit card but are unwilling or unable to maintain a traditional transaction account at a depository institution.”⁴

² Fed. Reserve Sys., THE 2013 FEDERAL RESERVE PAYMENTS STUDY 14 (December 19, 2013).

³ *Id.* at 20-21. The prepaid card to be issued in connection with this program cannot be reloaded.

⁴ *Id.* at 20.

7. General purpose prepaid cards, such as the prepaid card Kentucky Power seeks authority to use to make refunds, “continued to be the fastest growing noncash payment type, increasing at a 33.55% annual rate by number from 2009 to 2012. There were 3.1 billion general-purpose prepaid card transactions [in 2012], 1.8 million more than in 2009.”⁵

8. Prepaid cards also “are a ubiquitous disbursement mechanism in the government sector.”⁶ According to a July 2014 Federal Reserve System Report, government-issued prepaid cards are used by all states to disburse Supplemental Nutrition Assistance Program benefits, while most states use such cards for child support, unemployment insurance, and Temporary Assistance for Needy Families programs.⁷ Other states use prepaid cards to make state income tax refunds.⁸ Prepaid cards were used to disburse 13.5% of government-administered payments made in 2013.⁹

9. Prepaid cards offer both added convenience and security to recipients and issuers when compared to paper-based payment methods such as checks. The Federal Reserve System reports that:

Prepaid cards allow for faster disbursement of funds and allow recipients to receive benefits without depositing checks into bank accounts. For recipients who do not have bank accounts, prepaid cards eliminate the need to cash paper checks and carry cash.¹⁰

⁵ *Id.* at 21.

⁶ Board of Governors of the Fed. Reserve Sys., REPORT TO CONGRESS ON GOVERNMENT-ADMINISTERED GENERAL-USE PREPAID CARDS 3 (July 2014).

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at 6.

¹⁰ *Id.* at 4.

10. The Federal Reserve System also found that prepaid cards provide security advantages over checks and other paper-based payment methods:

Compared with paper-based payment methods, prepaid cards generally provide enhanced security. Funds disbursed by prepaid cards are less susceptible to mail fraud than those disbursed by check. Most card issuers and payment card networks employ advanced analytics to identify potentially fraudulent activity. Further, prepaid cards generally offer enhanced liability protections to government agencies and cardholders for fraudulent activity.¹¹

Kentucky Banking Activity

11. The most recent Federal Deposit Insurance Corporation survey indicates 33.2% of Kentucky households were either unbanked (9.7% of Kentucky households) or underbanked (23.5% of Kentucky households).¹² According to the survey, unbanked households are two and one-half times more likely to have used a prepaid card in the previous 30 days than underbanked households, and almost nine times more likely to have done so than fully-banked households.¹³ Unbanked households also have the highest rate of prepaid card use.¹⁴

12. On a national basis, the percentage of unbanked and underbanked households decreases as family income increases. For example, while 27.7% of households earning \$15,000 a year or less were unbanked, less than one percent (0.5%) of households earning at least \$75,000 were unbanked.¹⁵ Similarly, although 22.4% of households earning less than \$15,000 were underbanked, only 13.6% of households earning \$75,000 were underbanked.¹⁶

¹¹ *Id.*

¹² Fed. Deposit Ins. Corp., 2013 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS App. G-1 at 116 (Oct. 2014).

¹³ Fed. Deposit Ins. Corp., 2013 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 8 (Oct. 2014).

¹⁴ *Id.* at 7.

¹⁵ Fed. Deposit Ins. Corp., 2013 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS TABLE

13. As measured by median household income, the Commonwealth is ranked 47th among the 50 states.¹⁷ Its median income (2009-2013) of \$43,036 is approximately 20% below the national median income (2009-2013) of \$53,046.¹⁸

14. The 20 counties comprising Kentucky Power's service territory are among the least wealthy in the Commonwealth. The median household income in all but two (Boyd and Greenup counties) of the 20 counties in the Company's service territory is below Kentucky's household median.¹⁹ Nine of the 20 counties in the Company's service territory rank among the least wealthy quartile of Kentucky counties; three counties in Kentucky Power's service territory are among the ten least wealthy counties in the Commonwealth, including Owsley County which is the least wealthy county as measured by median family income.²⁰

15. These levels of household income suggest that the percentage of unbanked and underbanked households in Kentucky Power's service territory is at least as high as that for Kentucky as a whole.

Kentucky Power Refund Activity

16. For the 12-month period ending June 30, 2015, Kentucky Power issued approximately 8,400 customer refund checks totaling approximately \$1,585,000. Approximately 62% of these checks were issued to residential customers.

A-1a (Oct. 2014).

¹⁶ *Id.*

¹⁷ <http://www.indexmundi.com/facts/united-states/quick-facts/all-states/median-household-income#chart>

¹⁸ *Id.*

¹⁹ <http://www.indexmundi.com/facts/united-states/quick-facts/kentucky/median-household-income#chart>

²⁰ *Id.*

Kentucky Power's Proposal To Offer Prepaid Cards

17. Upon Commission approval, Kentucky Power proposes to improve its refund process by providing its residential customers with a new method by which they may receive refunds. Currently, residential customers receive refunds by means of a bill credit or a paper check. If the Company's proposal is approved, residential customers who currently receive checks in connection with certain types of refunds also will be able to receive refunds by means of prepaid cards or electronic funds transfer to the customer's bank account.²¹ The prepaid card will be available for all residential customer refunds, except refunds of amounts paid as contributions in aid of construction.

18. Non-residential customers will continue to receive their refunds by means of a bill credit or a paper check.

19. Refunds of deposits to customers continuing as such will continue to be made by bill credit, or, if requested by the customer, by means of a prepaid card. In addition, deposit refunds also will be applied as bill credits to the extent the departing customer is indebted to the Company.

20. With the Commission's approval, the following types of refunds to residential customers, which currently are made by check, will be made by prepaid card:

- (a) Deposit refunds to persons who posted a deposit but are not a customer, or customers leaving the Company's systems and who have a credit balance after applying the deposit to the former customer's account balance.
- (b) Refunds in connection with billing adjustments following a meter test; and

²¹ Consistent with existing Company practice, refunds made using a prepaid card will be made to the person supplying a deposit in lieu of the customer where a third-party made the deposit on behalf of the customer.

(c) Refunds made following the annual recalculation of budget amounts.

21. Under the Company's proposal, residential customers eligible for qualifying refunds will receive a prepaid card in the amount of the refund from the Company's third-party issuer.²² Accompanying the prepaid card will be a letter stating the customer may immediately use the card to make purchases, may request that the third-party issuer replace the card with a paper check, or that the refund be deposited to the customer's bank account by means of an electronic transfer of funds. A copy of the form of the letter to be sent by the third party issuer is attached as **EXHIBIT 2** to this Application.

22. Prepaid cards offer multiple advantages to Company's customers. These include:

➤ Immediate access to the funds. Unlike refunds made by means of a check, which may require one or more business days for the funds to become available, prepaid cards may be used upon receipt and activation of the card. Cards may be activated 24 hours a day, 365 days a year.

➤ Unlike refunds made by means of a check, a prepaid card allows customers access to the funds without the necessity of a trip to a financial institution or other check cashing facility to deposit or cash the check.

➤ Allows unbanked and underbanked Company customers ready access to funds. Some financial institutions decline to cash checks for non-customers.

➤ Permits unbanked and underbanked Company customers the ability to avoid check cashing fees levied by many financial institutions to cash checks presented by non-

²² The third-party issuer currently is Citibank.

customers.²³

- The prepaid cards may be used at any of the thousands of locations that accept such cards.
- Citibank will reissue a lost or stolen prepaid card once without charge. In addition, the persons to whom the prepaid cards are issued are not liable for fraudulent third-party use of the cards.

In sum, although prepaid cards particularly benefit those Company customers who are unbanked or underbanked, all customers will benefit from the immediate access to funds, the convenience of avoided trips to banks and other financial institutions, and fraud, loss, and theft protection.

23. Use of the prepaid cards transfers responsibility for payment liability to the third-party issuer of the cards. This allows Kentucky Power to avoid the liability and cost associated with lost, stolen, and fraudulently used checks. Moreover, the use of the prepaid cards will help limit losses suffered by local merchants and banks that are often the targets of check fraud. Kentucky Power also will have no liability as a result of lost, stolen, or fraudulently used prepaid cards. Finally, because of the advantages accruing to its customers as a result of the availability of prepaid cards, the Company anticipates benefiting from improved customer satisfaction.

24. Each of the American Electric Power Company, Inc.'s operating companies, upon receipt of any necessary regulatory approvals, intends to implement a program to use prepaid cards to make refunds. To date, Ohio Power Company and Public Service Company of Oklahoma implemented similar prepaid card programs to make refunds to residential customers beginning in April 2015 and September 2015 respectively. Southwestern Electric Power

²³ A monthly maintenance fee will be assessed if the card is not used within the first six months following its issuance. In addition, a three percent foreign currency conversion fee will be applied to all transactions made outside of the United States.

Company (“SWEPCo”) expects to implement the program in Arkansas and Louisiana in November 2015. In addition, on October 28, 2015 SWEPCo filed a petition for approval to implement the program in Texas. Finally, the remaining American Electric Power operating companies anticipate implementing their programs in early 2016.

Requested Deviations From Commission Regulatory Requirements

25. 807 KAR 5:006, Section 8(1)(d)(3)(d) limits Kentucky Power to using paper checks, bill credits, and the electronic transfer of funds to the customers’ financial accounts in making refunds of deposits. The implementation of the Company’s proposed prepaid card program requires the Commission to grant the Company a deviation from this regulation. Even if the deviation is granted customers may continue to elect as described in paragraph 21 above to receive refunds in the form of paper checks or the electronic transfer of funds.

26. Kentucky Power’s proposed program to use prepaid cards to make refunds includes refunds for amounts unrelated to deposits. 807 KAR 5:006, Section 8(1)(d)(3)(d) is applicable only to deposit refunds and thus a deviation is not required to use prepaid cards to make refunds for sums unrelated to deposits. Kentucky Power also seeks a deviation from the notification requirements imposed by 807 KAR 5:006, Section 11(5) in connection with refunds made in connection with bill adjustments as a result of meter tests. Kentucky Power requests a deviation to permit it to amend the final sentence of required notification to provide as follows:

If you desire to receive a refund by check or electronic funds transfer in lieu of a prepaid card you may request either as described in this letter.

Proposed Tariff Modifications

27. Kentucky Power's proposal to modify Tariff Sheets 2-3 of its Terms and Conditions of Service is attached as **EXHIBIT 3** to this Application.

28. Kentucky Power also proposes adding paragraph 20 (Tariff Sheet 2-11) to its Terms and Conditions of Service. A copy of the revised page is attached as **EXHIBIT 4** to this Application.

29. The proposed tariff modifications will not affect the amount a customer pays for service or the quality, delivery, or rendering of a customer's service.

Testimony

30. The testimony of John A. Rogness is filed in support of this application.

Exhibits

31. The exhibits listed in the Appendix to this Application are attached to and made a part of this Application.

Communications

32. The Applicant respectfully requests that communications in this matter be transmitted electronically to:

Mark R. Overstreet
STITES & HARBISON PLLC
moverstreet@stites.com

Kentucky Power Company
Kentucky_regulatory_services@aep.com

ON BEHALF OF KENTUCKY POWER

WHEREFORE, Kentucky Power Company requests that the Commission issue an Order:

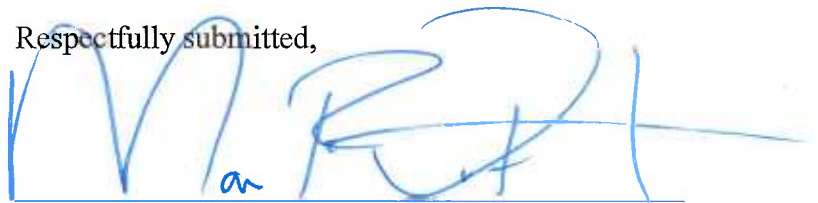
(1) Granting Kentucky Power a deviation from the requirements of 807 KAR 5:006, Section 8(1)(d)(3)(d) And 807 KAR 5:006, Section 11(5) to permit the Company to establish and additional means of making refunds;

(2) Approving the proposed changes to Tariff Sheet 2-3 and Tariff Sheet 2-11;
and

(3) granting all other required relief or approvals.

This 19th day of November, 2015.

Respectfully submitted,



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COUNSEL FOR:
KENTUCKY POWER COMPANY

LIST OF EXHIBITS

- EXHIBIT 1: November 16, 2015 “Certificate of Existence” for Kentucky Power Company issued by the Secretary of State of the Commonwealth of Kentucky.
- EXHIBIT 2: The form of the letters to be mailed the third-party issuer in connection with the prepaid cards.
- EXHIBIT 3: Proposed Revised Tariff Sheet 2-3
- EXHIBIT 4: Proposed Revised Tariff Sheet 2-11

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate electronic copy on disc of the foregoing was served as indicated below upon:

Jennifer Black Hans
Lawrence W. Cook
Kentucky Attorney General's Office
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

By Overnight Delivery

on this the 19th day of November, 2015.

A handwritten signature in blue ink, consisting of a large 'M' followed by 'R' and 'O', with a horizontal line underneath.

Mark R. Overstreet