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PSC responds to criticism of Ky. Power

Letters to the Editor
By Mountain Eagle Staff | on January 29, 2014

To the Editor:

The Kentucky Public Service Commission (PSC) welcomes this opportunity to respond to certain statements by members of the Letcher County Fiscal Court, as reported in *The Mountain Eagle's* January 22 edition.

Those statements left the impression that recent high utility bills are the result of unspecified "rate increases" granted to Kentucky Power Company by the PSC. The statement further implied that the so-called rate increases were driven by both conversion of coalfi red power plants to natural gas and increased executive pay and shareholder dividends at parent company American Electric Power (AEP).

Here are the facts:

2. In October 2013, in case 2012-00578, the PSC authorized Kentucky Power to collect a surcharge to begin paying for the purchase of a coal-fired power plant to replace the larger portion of the Big Sandy power plant in Louisa. That modest temporary surcharge took effect this month.

3. At the same time that it authorized the surcharge, the PSC froze Kentucky Power's base rates until May of 2015.

4. All of Kentucky Power's current generating capacity is coalfi red. The company has requested the PSC's permission to convert a portion of the Big Sandy plant to run on natural gas. No decision has been made in that case, which is number 2013-00430.

5. Like every other investorowned utility in the state, Kentucky Power is entitled – by both Kentucky and federal law – to the opportunity to earn a reasonable but not excessive rate of return on equity for its shareholders.

6. It is from that rate of return – what may be viewed as profit – that parent company AEP pays dividends, lobbying expenses, executive bonuses and other items. Those costs are not used to calculate Kentucky Power's base rates.

7. Kentucky Power is the smallest operating company within AEP. That means that its ratepayers pay a relatively small proportion of those parent company costs that are reflected in base rates and contribute a similarly small proportion of the overall parent company profits and returns to shareholders.

8. Kentucky Power's rates, which are determined on a standalone basis, are driven overwhelmingly by two factors: its day-to-day operating expenses and the cost of ownership of its generating facilities, which at present are all fueled by coal. Those factors, and the calculation of a reasonable rate of return on equity, are what the PSC uses when it sets base rates that it determines to be fair, just and reasonable.

9. Base rates change only at several-year intervals. Other items that help determine the total utility bill, such as an adjustment for fluctuations in the price of coal, may rise or fall on a monthly basis, but differ little from one month to the next.

10. By far the single largest factor in determining the amount of an electric bill every month is consumption – how much electricity an individual customer uses.

In one respect, the members of the Letcher County Fiscal Court are correct: electric bills in the last two months or so have been higher than in the preceding months. The reason is obvious. It has been cold, particularly this month.

than normal. December, despite two cold snaps, was actually a bit warmer than average. But January thus far has been especially cold, with average daily temperatures about six degrees below normal and heating demand well above normal as a result. The heating demand does not take into account wind speeds, which can amplify the effect of cold temperatures.

The cold weather means that it takes more energy to heat a home – regardless of whether it is heated with electricity, natural gas, propane, coal or firewood. It will simply take more fuel, and that means it will cost more. Because the cost of electricity – unlike other heating fuels – is regulated by the PSC, the higher Kentucky Power bills have little to do with rates and everything to do with the weather.

Much as we might like to, none of us can do anything about the weather. However, there are things everyone can do to manage their energy costs.

First and foremost is to improve the energy efficiency of your home. There are many simple steps that help keep cold air out and warm air in. Information is available from a variety of sources, including Community Action Agencies and utility companies.

Many community agencies and utility companies, including Kentucky Power, have programs to assist residents in weatherizing their homes. In fact, the PSC in October ordered Kentucky Power to increase funding for its weatherization and other energy efficiency programs.

Weatherization can help with future bills. There is also help available for those who have difficulty paying their current electric bills. The PSC recognizes that the economic situation has in recent years placed many people into that position for the first time.

That is why the PSC ordered Kentucky Power to increase the contribution AEP's shareholders make to a program to assist lowincome customers who are having difficulty paying their electric bills. Information on the program is available from Kentucky Power. Other sources of assistance also are available, notably the Low Income Heating Assistance Program, or LIHEAP, which is administered by the Leslie-Knott- Letcher-Perry Community Action Agency.

It is also important to know that utility companies are required to offer budget billing plans, which average bills over a 12-month period and thus reduce seasonal fluctuations in monthly bills. Utilities also are required to offer customers faced with disconnection for non-payment the opportunity to enter into installment payment plans.

toll-free number is 800-772-4650.

Finally, it bears noting that this is not the first time that this issue has arisen in Letcher County. The early winter of 2010-2011 was even colder than this winter has been thus far, particularly in December.

In February of 2011, at the request of the Letcher County Fiscal Court, PSC staff and others conducted a home energy workshop at the Letcher County Courthouse in Whitesburg. Many Letcher County residents attended, including a number of local elected officials. That workshop covered in greater depth much of the information presented in this letter, including a detailed explanation – using actual Kentucky Power Company bills – of the relationship between weather, energy usage and utility bills.

Many of the Letcher Countians who attended that workshop said that the information was useful and gave them a better understanding of their electric bills, even if it did not reduce their concerns about the size of those bills.

Unhappiness with large utility bills is only natural. The PSC accepts that it will be the focus of some of that displeasure, despite its efforts to keep rates as low as possible and its inability to control the weather.

The PSC will continue to provide utility customers in Letcher County and across Kentucky with accurate and timely information that helps them understand and manage their utility bills.

The PSC thanks *The Mountain Eagle* for this opportunity to set the record straight.

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