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February 8, 2010

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Application for General Adjustment of Electric Rates
Of Kentucky Power Company, Case No. 2009-00459

Dear Mr. Derouen and individual Members of the Commission:

This letter is submitted by me as Mayor of the City of Hazard, Kentucky as a part of the public comments on the proposed general adjustment of electric rates application of Kentucky Power Company in your case no. 2009-00459. The City of Hazard opposes the granting of the requested rate increase for reasons set forth more fully below.

Before setting forth the City's opposition against the proposed rate increase, I must say that the City of Hazard does not reject the concept of supervised adjustment of electric rates or even the potential need for a rate increase of a reasonable size at an appropriate time. I acknowledge the need for continuing adjustments of rates pursuant to the fuel adjustment cost mechanism since Kentucky's economy as a whole is based in significant part upon the production of coal, natural gas and oil, and I believe that maintaining a healthy local electric utility company is essential to progress in every region of the Commonwealth. My reasons for opposing the rate adjustment request are tied to the timing of the request, its magnitude and the lack of evidence that it is fashioned for the long term benefit of the rate paying public inside the company's service area.

First, I oppose the requested rate increase on the basis that it is entirely predicated upon extraordinary, non-recurring conditions and not upon a reasoned analysis of economic performance subsequent to the last rate adjustment or upon a sound forecast of future performance of the company. The entire rate request is predicated upon economic statistics prevailing during a test year commencing in September 2008 and ending in September 2009. No one could imagine a year in our national and regional economy which would be more unrepresentative of general business conditions and trends since the commencement of the Great Depression. Rate adjustments ordinarily last for several years; the last general rate adjustment proceeding for the company was in 2005 according to the documentation submitted. No general rate adjustment should be awarded to the company on the basis of conditions in the national and regional economy which are so abnormal as those experienced over the past 18 months. The company should be required to resubmit its application with appropriate supplemental material which includes economic data from the years preceding the test year and either excludes the abnormal data from the test year or appropriately adjusts the data in a manner which does not skew the overall results.

Second, I oppose the requested rate increase because the magnitude of the company's request for rate adjustment cannot be justified in light of present economic circumstances. Despite the worst economic downturn in three quarters of a century, the company reports that it nevertheless achieved a return on equity of nearly 3% during the test year ended September 30, 2009. This return on equity is described as "inadequate and unreasonable." I only wish that all of the businesses in the City of Hazard and surrounding communities within KPC's service area had been so fortunate as to reflect a similar positive return on equity during the same time period. The current rate of return is not unreasonable under the present economic circumstances. In fact, the PSC could justify withholding *any* increase on the basis of the application as presently submitted. Legislative bodies across the country have been forced to exercise fiscal restraint in meeting severe budget shortfalls due to the recognition that heavier tax burdens on the public at this time would further damage a fragile economy and kill prospects for an expedited recovery. The PSC should guard the public interest and exercise similar fiscal restraint since significant increases in utility bills for consumers usually fall even more heavily on those least able to pay than imposition of new tax levies.

Third, I oppose the requested rate increase because granting such a large increase will trigger a serious "ripple" effect throughout the economy of the service area. The magnitude of this particular request in the 20% to 34% range for virtually all customers cannot be viewed in isolation. Such a large increase cannot be absorbed by the customer base without additional severe repercussions for the average family in the service area. The cumulative effects of the proposed increase should be considered in evaluation of the request. As the Mountain Water District in Pikeville and Big Sandy Water District in Catlettsburg and other opponents of the rate increase have noted in their recent written objections, the granting of the increase will lead to predictable increases in other essential goods and services throughout the service area. The impact on other essential utility services may be the best example of the double whammy which would result. The City of Hazard provides public water service to <u>8,094</u> customers and sewer collection and/or treatment services for <u>3,114</u> customers. The City has <u>150</u> separate accounts with Kentucky Power Company to provide electric service to operate the water plant, sewer plant, pump and lift stations, telemetry sites and other associated equipment and administrative offices. The single increase in the electric utility rate requested in the present case would alone result in an increase of <u>4.02</u>% of the City's operating expense budget for water and <u>3.97</u>% of its operating expense budget for sewer. The City could not absorb those increases without passing the added expense along to its own customer base. The increase in water rates for an average customer attributable just to the additional cost of electricity would be $16.24 per year. The increase in sewer rates for an average customer attributable just to the additional cost of electricity would be $16.08 per year. Of course these utility increases would be compounded upon the higher electric bills also paid by the consumer. I believe it would be an abuse of discretion to overlook the "ripple" effect of the rate increase which has been proposed.

Finally, I note that one of the primary reasons included in the company's Application to justify the pending rate request is to reflect the costs of the proposed Renewable Energy Purchase Agreement. That Agreement proposes to create a twenty year contractual commitment by the company to purchase power and help develop 22,000 acres of land in Illinois as a new "wind farm" and renewable energy source. The testimony submitted to the PSC from Jay F. Godfrey reveals that the company's corporate parent has similar contracts with wind energy facilities in Illinois, Indiana, Oklahoma, West Virginia and Texas. The testimony of Scott Weaver indicates that the company's investment in wind resources is motivated, at least in part, by Governor Brashear's November 2008 comprehensive energy plan which sets forth a renewable and energy efficiency portfolio standard. Another additional factor is the *possibility* that Congress might not elect to extend a renewable energy production tax credit amounting to approximately 2.1 cents per kilowatt hour for wind generation according to Mr. Weaver's testimony. The latter factor is not a sufficient justification based upon the mere speculation that future credits could be less favorable while the company's proposed course of action violates at least the spirit of the Governor's initiative.

Apart from the obvious and superficial question of why investment in an allegedly low-priced renewable energy technology should ironically justify a substantial increase in existing electric rates, I am struck by the total absence in the company's application of any data or analysis regarding the feasibility of capital investment in renewable energy infrastructure here in Kentucky—and particularly in the company's service area. After all, Governor Brashear's initiative is directed at making the Commonwealth of Kentucky a leader in every aspect of the emerging energy economy. There is some indication in the rate request that the company will experiment with the use of biomass as an alternative fuel on a small scale in its Rockport and Big Sandy plant facilities, but there is no economic data or analysis comparing the relative merits of biomass versus wind or the feasibility that wind or other alternative renewable energy sources could be developed locally. Approval of a twenty year commitment to develop out of state infrastructure is akin to raising the white flag of surrender and conceding that Kentucky is unable or unwilling to accept responsibility for its own energy future. If the PSC is to perform its assigned function as guardian of the public interest of Kentuckians, then *no* rate increase based upon any long term commitment for infrastructure outside the Commonwealth should be granted without a thorough economic and policy analysis of why long term investments in infrastructure here would not be a feasible alternative. If the PSC is unwilling to support Governor Brashear's long term energy initiatives *through actual implementation of policy*, then someone on the Commission should advise the Governor to quit paying lip service to solving our energy problems.

In summary, I do not believe the company has made its case for the rate increase. The PSC should fulfill its responsibilities on behalf of the public and exercise its discretion to require adequate justification why such an increase should be made at this time, under these circumstances and without greater consideration of the long term best interests of the Commonwealth.

Sincerely,

MAYOR WILLIAM D. GORMAN
CITY OF HAZARD