



Commonwealth of Kentucky Energy and Environment Cabinet

Matthew G. Bevin, Governor

Charles G. Snively, Secretary

FOR IMMEDIATE RELEASE

Contact: John Mura

502-782-7023

John.Mura@ky.gov

Andrew Melnykovich

502-782-2564

Andrew.Melnykovich@ky.gov

OP-ED: The Public Service Commission - Dedicated to Fair Electric Rates

By Chairman Michael J. Schmitt

FRANKFORT, Ky. (Feb. 28, 2018)

OP-ED by Public Service Chairman Michael J. Schmitt

Many Kentuckians may be unaware of the role of the Public Service Commission (PSC) in their daily lives. Paraphrasing our mission statement, the PSC fosters the safe, reliable service of utilities to customers at a price that is both reasonable and also allows for the financial stability of the regulated utilities. This includes rates and service for a myriad of utilities, including electricity, natural gas, and water.

While the PSC wants utility customers to pay a fair and reasonable price, we must also consider the merits of rate increase requests. When a utility company requests a rate increase, the PSC is thoughtful and thorough in our pursuit of fairness to all parties, including both the consumer and the company. A strong Kentucky economy requires healthy, viable utility companies. Like any business, if utility companies are forced to provide their services at a loss, the company cannot succeed and consumers will ultimately be harmed when those services are no longer available.

Our recent rate hearing with Kentucky Power (K.P.) is a good case in point. Kentucky Power negotiated with various customer groups, including the Kentucky League of Cities, Kentucky School Boards Association, Kentucky Industrial Utility Customers Inc. and Walmart to achieve a reasonable compromise. I want to compliment Kentucky Power for their willingness to negotiate and for working with their customers to help make rate relief possible. Kentucky Power initially sought to increase its annual revenue from base rates by \$60.4 million (about 11 percent). The utility later reached a proposed settlement agreement with most of the parties involved on a rate case of \$31.8 million. Ultimately, the PSC granted Kentucky Power a revenue increase of only \$12.35 million, which after other adjustments, resulted in a 4% decrease in the average utility bill for residential customers. The manner in which this was achieved speaks to the comprehensive analysis methods the PSC incorporates under the Bevin Administration.

One adjustment made in the Kentucky Power rate case was in the Demand Side Management Program (DSM). These programs were implemented nationwide a few years ago and sought to reduce electricity by implementing activities or programs that promote electricity efficiency or conservation. These programs may have provided consumer benefits when electricity demand and prices were high. However, the market has now changed and demand for electricity has decreased. In light of this reality, DSM programs provide little benefit to consumers. And it must be understood, that these programs are not free to customers. There is a line on every utility bill that shows the DSM charge per

kilowatt hour. In the K.P. case, the PSC discontinued all of the company's DSM programs, except those designed to help low income rate payers, resulting in a savings for consumers.

The PSC also considered another important change in the K.P. case, the recent federal tax reform legislation signed into law in December by President Trump. The new law has allowed corporations like AEP, the parent company of K.P., to realize savings on their tax liability, which is one component of their rate calculation. The PSC was aware that Kentucky Power would now realize substantial tax savings and ruled that all of those savings should be passed on to customers.

Another area that the PSC evaluates in rate cases are the compensation packages of utility employees. As PSC Vice Chairman Robert Cicero recently commented at the Kentucky Chamber of Commerce Energy Conference, "Salary and compensation packages for utility employees should be market driven," The PSC carefully scrutinizes compensation packages to ensure that utility customers are not subsidizing packages that are significantly more lucrative than those available in the Kentucky job market.

These are only a few examples of the scrutiny the PSC incorporates to ensure fair rates for consumers and utilities. There should be no ambiguity as to who sets electric utility rates in Kentucky. As we move forward, the Public Service Commission will continue to diligently analyze rate increase requests to arrive at a fair resolution for all parties. Our goal has always been and will continue to be ensuring a fair and stable utility market for Kentuckians.

(Photo attached)

###

