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PSC Approves Kentucky Power Co. Purchase of Generating Capacity to Replace Big Sandy Plant

Utility will buy 50% share of West Virginia facility from sister company

FRANKFORT, Ky. (Oct. 7, 2013) – The Kentucky Public Service Commission (PSC) has conditionally approved a Kentucky Power Co. proposal to purchase a half interest in a power plant in West Virginia to replace a generating facility the utility plans to retire in Kentucky.

In an order issued today, the PSC found that the proposal is "by a wide margin" the least costly among the many options for the company to maintain adequate generating capacity.

Kentucky Power was authorized to purchase a 50 percent interest in Ohio Power Company's Mitchell power plant, which is south of Moundsville, West Virginia. Kentucky Power and Ohio Power are both subsidiaries of American Electric Power Co.

The 780 megawatts (MW) of coal-fired capacity at Mitchell will replace an 800-MW coal-fired unit at Kentucky Power's Big Sandy plant near Louisa. Under a 2007 federal court consent decree, Kentucky Power agreed to close the unit in mid-2015 unless it is upgraded to meet stricter air emission standards. Kentucky Power plans to close the 800-MW unit and has said it intends to seek PSC approval to convert a 278-MW unit at Big Sandy to burn natural gas instead of coal.

Kentucky Power withdrew an earlier proposal to retrofit Big Sandy's 800-MW unit with an emission-removing scrubber and decided to retire it instead. Nevertheless, the scrubber option was included in the economic analysis used to determine whether the Mitchell acquisition was the best option for maintaining adequate generating capacity, the PSC said.

Purchasing half of the Mitchell plant will cost much less than bringing Big Sandy's larger unit into environmental compliance, the PSC said in its order. The Mitchell purchase will cost about $536 million, whereas upgrading Big Sandy to meet stricter U.S. Environmental Protection Agency air quality rules would cost nearly $1 billion.

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When operating costs are factored in, the plan approved today will cost Kentucky Power's ratepayers about $59 million less per year than an earlier plan to upgrade Big Sandy.

The Mitchell acquisition eventually will increase Kentucky Power's rates by about 14 percent, while a Big Sandy upgrade would have increased rates by 26 percent, the PSC found.

Although the Mitchell acquisition will be the least costly for Kentucky Power and its 173,000 ratepayers in 20 eastern Kentucky counties, the PSC noted that the shutdown of the larger Big Sandy unit will result in job losses and a sharp decrease in tax revenue in Lawrence County, with the economic effects extending to neighboring counties as well.

Therefore, the PSC directed Kentucky Power to more than double the amount of shareholder money it had voluntarily agreed to spend on economic development efforts in the area, including job training. The PSC required Kentucky Power to spend at least $233,000 in each of the next five years, with $33,000 going to job training programs, through the Kentucky Community and Technical College System, focused on weatherization and energy efficiency.

The PSC took note of comments by state Rep. Rocky Adkins, who represents Lawrence County, and from Lawrence County Attorney Michael Hogan, who both urged the PSC to reconsider the decision not to upgrade the Big Sandy plant. Keeping the plant open would preserve well-paying jobs, tax revenue and coal sales, they said.

"The Commission greatly appreciates the participation of elected officials and affected customers in this important process," the PSC said. The statutory standard that applies in this case is only whether the Mitchell acquisition is necessary in light of the decision to retire Big Sandy and whether it is the lowest cost reasonable option available, the PSC said. "Thus, arguments on economic benefits to specific areas of Kentucky Power's service territory are beyond the scope of the Commission's jurisdiction," the PSC said in its order.

In approving the Kentucky Power purchase, the PSC accepted most of the terms of an agreement reached by Kentucky Power with the Kentucky Industrial Utility Customers, Inc. (KIUC) and the Sierra Club. The Kentucky Office of Attorney General also participated in the proceeding, but was not a party to the agreement.

Key provisions of the agreement, in addition to the Mitchell purchase, include:

- A freeze on Kentucky Power's base rates until May, 31, 2015, and withdrawal of a pending application to increase rates by 24 percent.
- A $44 million annual limit, to extend for 17 months, on recovery of costs associated with the Mitchell acquisition, with the recovery coming via a surcharge.

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- A pledge to contribute $100,000 annually to economic development efforts in Lawrence and five neighboring counties, including at least $33,000 annually on job training. (The PSC modified this provision, as noted above.)
- A 20-percent increase in Kentucky Power's shareholder contribution to its energy assistance program for low-income ratepayers.
- A doubling, to $6 million per year, of Kentucky Power's program to help its customers save energy through measures such as weatherization.
- A commitment by Kentucky Power to consider the purchase of 100 MW of wind power the next time the company seeks additional generating capacity.

The PSC removed a provision in the agreement that would have allowed Kentucky Power to separately account for and potentially recover from ratepayers the $28.1 million it spent over eight years to study whether or not to upgrade the Big Sandy plant.

Imposing that cost on ratepayers is not reasonable, the PSC ruled. Instead, Kentucky Power can write it off, the PSC said.

Kentucky Power has a week to decide whether it will accept the modifications the PSC made to the agreement, including the increased economic development funding and clarifications to certain other provisions.

Today's order also addresses a number of issues related to the ownership of the other half of the Mitchell power plant and its future operation.

The PSC conducted public comment meetings in the case on May 14 in Louisa and May 15 in Hazard and Whitesburg. The formal evidentiary hearing was convened on May 29 and adjourned in order to allow further discussions among the parties. It resumed on July 10 and concluded on July 12.

Today's order and documents in the case, as well as video recordings of the public meetings and hearing, are available on the PSC website, psc.ky.gov. The case number is 2012-00578.

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 90 employees.

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