

6/27/2013

Kentucky Power Files Rate Case to Recover Costs of Mitchell Plant Asset Transfer

FRANKFORT, KY – Kentucky Power Company, a subsidiary of American Electric Power, announced today it will file a base rate case with the Kentucky Public Service Commission (KPSC) to recover costs associated with the anticipated transfer of 50% of the ownership of two power generating units from AEP Ohio's Mitchell Power Plant near Moundsville, West Virginia, to Kentucky Power. The filing calls for an increase in revenue of \$114 million over existing rates and asks for a general rate increase for Kentucky Power customers of 23.39%.

While the overall impact on revenue is approximately 23%, the impact on residential customers will be approximately 31% due to the way revenues are allocated among customer classes based on usage, service charges and other factors. There are two mitigation measures in the filing that could effectively lessen the overall rate impact from 23% to 12% and the residential impact from approximately 31% to about 20%.

The two mitigation measures that should reduce the overall rate impact are 1.) Kentucky Power expects to share additional system sales revenue that will result from the operation of the Big Sandy Unit 2 and the Mitchell Power Plant simultaneously for an overlap period (Jan. 1, 2014 through the retirement of Unit 2); and 2.) The company anticipates favorable fuel costs to flow through to customers resulting from cheaper coal used to operate the Mitchell Power Plant. The additional sales revenue is expected to reduce the net rate by about 8% and the fuel savings by about 3%. So, the company anticipates an effective overall rate impact of 12% [23% - 8% - 3% = 12%].

Similarly, those reductions will reduce the expected residential rate from 31% to approximately 20% [31% - 8% - 3% = 20%].

If approved by the KPSC, the bill for a typical residential customer using 1,374 kilowatt hours of electricity per month will rise from the current price of \$119.69 to \$156.93 (or 8.7 cents per kilowatt hour to 11.4 cents per kilowatt hour) – an increase of \$37.24 or approximately 31%. If the two mitigation measures described above are approved, the same customer would see a bill increase from 8.7 cents per kilowatt hour to 10.4 cents per kilowatt hour or from \$119.69 per month to \$143.62 per month, which represents a monthly increase of \$23.93 (and a savings of \$13.31 per month over the full case). Presuming the company's case follows prescribed regulatory procedures, the rate increase would not take effect any earlier than January 1, 2014.

“The filing of this case is necessary to begin recovery of costs associated with transferring the Mitchell Plant Assets to Kentucky Power and it is being filed in anticipation that the Public Service Commission will approve the asset transfer. The company needs to be able to

collect costs associated with buying and operating the Mitchell plant at the time it assumes ownership of it,” said Greg Pauley, president and chief operating officer of Kentucky Power.

“We understand that this rate case represents a significant cost to customers, even at the anticipated rate for residential customers at 20%. However, it is less expensive than other options we reviewed and we have worked to keep the impact as low as possible. In fact, the Memorandum of Understanding before the Commission in the transfer case would limit the impact of the Mitchell transfer even more.

“Environmental compliance is an expensive proposition and we have always said EPA regulations associated with the continued use of coal would come at a high cost to customers. We are trying to manage those costs as best we can,” Pauley said.

Kentucky Power is an operating unit of American Electric Power and provides electricity to approximately 173,000 customers in all or parts of 20 eastern Kentucky counties.

American Electric Power is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers in 11 states. AEP ranks among the nation’s largest generators of electricity, owning nearly 38,000 megawatts of generating capacity in the U.S. AEP also owns the nation’s largest electricity transmission system, a nearly 39,000-mile network that includes more 765 kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP’s transmission system directly or indirectly serves about 10 percent of the electricity demand in the Eastern Interconnection, the interconnected transmission system that covers 38 eastern and central U.S. states and eastern Canada, and approximately 11 percent of the electricity demand in ERCOT, the transmission system that covers much of Texas. AEP’s utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas). AEP’s headquarters are in Columbus, Ohio.

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