

KENTUCKY PUBLIC SERVICE COMMISSION
PRINCIPLES AND GUIDELINES ON THE
RESTRUCTURING OF THE ELECTRIC INDUSTRY

A nationwide dialogue has begun among federal and state legislators and utility regulators, electric utility companies, non-utility electricity suppliers, and wholesale and retail electricity consumers on the need to fundamentally restructure the electric industry. This is a very important and complex issue that will have profound implications for every American household and business.

The Kentucky Public Service Commission has been following the development of these issues and urges all affected parties to give careful and thoughtful consideration to all aspects of this industry restructuring. The Commission is especially interested in examining the possible impacts that such a restructuring will have on states, like Kentucky, with low electric rates.

The citizens of the Commonwealth of Kentucky currently enjoy some of the lowest electric rates in the nation. In fact, according to the Energy Information Administration's electric sales and revenue data for 1995, Kentucky had the lowest electricity prices in the nation, as measured by average revenue per kilowatt-hour for all sectors of all utilities. The average electric rate in Kentucky in 1995 was 4.07 cents per kilowatt-hour compared to the national average of 6.89 cents per kilowatt-hour.

Kentucky's low electric rates can be attributed to many factors. Among these factors are, (1) close proximity to coal-producing areas; (2) a state ban on nuclear generating units, which have proven to be tremendously expensive to construct and maintain; (3) beneficial corporate management and efficient operations by utility companies; and (4) fair and reasonable regulation and oversight by state authorities. As the nationwide dialogue on electric industry restructuring continues, the Kentucky Public Service Commission will focus intently on maintaining the low electric rates that have developed in Kentucky over a long period of stable and beneficial utility regulation. The Commission urges the Kentucky General Assembly and all affected

parties to adopt a cautious and prudent approach toward electric industry restructuring.

The Commission has identified the following principles that will serve to guide the Commission in its activities and consideration of issues pertaining to the restructuring of the electric industry. The principles are in no particular order.

1. *Ensure the reliability and safety of electricity systems and services*

The reliability and safety of electric systems and services is of utmost concern to the PSC. If decisions on how a utility system is maintained and operated are based solely on economic, competitive or market-based considerations, the likelihood of a deterioration of service quality and reliability is increased. Furthermore, if decisions regarding the need for and types of new power supply or generation capacity are based solely on the vicillations of a competitive marketplace, the reliability of electricity supplies in hard-to-serve and less lucrative regions could be compromised. The restructuring of the electric industry must be accomplished in a manner that preserves the reliability, safety and quality of electricity systems and supplies for all consumers.

2. *Ensure that any benefits and advantages resulting from retail competition are shared equally by all consumers*

The restructuring of the electric industry should result in fair and equitable benefits for all consumers. All consumers should be guaranteed equal access to reputable and non-discriminating electricity suppliers. These concepts should be the cornerstone of any restructuring of the electric industry. Unless all consumers share equally in the benefits, changing the way in which electricity is supplied and purchased simply does not make sense from a public protection perspective.

3. *Institute sufficient safeguards to protect Kentucky consumers against undue discrimination and unfair business practices*

In a competitive environment, the current safeguards that protect customers against undue discrimination and unfair billing and disconnection practices could be compromised or even eliminated. Other consumer abuses that could result from a competitive utility industry include deceptive and discriminatory market practices. Electric industry restructuring must provide sufficient consumer protections and address the serious issues of service quality, obligation to serve, and providers of last resort for all retail customers. In addition, retail consumers must be fully informed and educated regarding any significant changes taking place in the electric industry.

4. *Guarantee universal electric service at reasonable prices for all Kentuckians*

Few would dispute the position that electric service has become a basic human need. Reliable electric service is crucial for the continued health, safety and economic well-being of Kentucky's citizens. For these reasons, universal service is a very important concept that must be considered in a restructured industry. Consumers should be entitled to non-discriminatory access to reasonably priced power. An electric market that is driven strictly by competitive and economic considerations will not necessarily protect the interests of small consumers, particularly rural and low income households. The availability of affordable and adequate electricity for all Kentucky consumers should be preserved in any restructured electric industry.

5. *Encourage environmentally sound resource allocation strategies in a competitive generation market*

The generation and delivery of electricity significantly affects the environment in Kentucky and elsewhere. Under the present regulatory framework, utilities are encouraged and occasionally required to pursue environmentally responsible expansion plans. A marketplace driven strictly by competitive and economic

considerations may be very limited in its ability to promote environmentally sound resource allocation strategies. A restructured electric industry should ensure that the environmental implications of all electric resource decisions are thoroughly considered by electricity suppliers and consumers.

6. *States should have the authority to handle all matters pertaining to utility retail stranded costs*

In a competitive electric market, utility assets that were originally constructed or acquired under the current regulatory regime in order to serve the utility's electric load could become stranded in a restructured market. These costs and expenditures that were traditionally recovered through utility rates could be greater than the prices established in the marketplace. Individual states must have the authority to consider utility claims to recover net, verifiable and non-mitigatable retail stranded costs. States are in the best position to develop fair and equitable verification and recovery methods that consider the interests of utility shareholders and ratepayers. Currently it appears that utilities in Kentucky will have little or no costs that will be stranded in a competitive marketplace.

7. *Establish fair cost allocation methodologies between utilities' regulated and unregulated energy services*

The Commission will be very concerned about the allocation of costs by utilities between regulated and unregulated energy services and subsidiaries and cross-subsidies between utility profit centers. At the present time, the Commission has instituted safeguards to monitor cost allocation between vertically-integrated utility holding company subsidiaries. If utilities unbundle services and certain aspects of utility operations become unregulated or federally regulated, the Commission could have some difficulty in protecting Kentucky consumers against the misallocation of costs between regulated and unregulated activities. A restructuring plan must provide the Commission with access to all appropriate books and records.

8. Institute a reasonable code of conduct for all electricity providers in a restructured electric industry

In a restructured electric industry, many types of electricity providers and purchasers will be interacting and competing. These providers will likely include investor-owned utility companies, rural electric cooperatives, municipalities, power marketers (agents for generation projects who market power on behalf of the generator), power brokers (retail agents who buy power on behalf of a customer), aggregators (entities that aggregate customers for a market), self-generators, and non-utility generators. The objectives and motives of each of these entities are different and possibly at cross purposes from those of other parties. Instituting a code of conduct for all electricity providers that, among other things, fully protects customers from unscrupulous agents and transactions will be very important. Equally important in the restructured electric industry will be the need for fair and equitable rules and policies which provide for a "level playing field" among the various electricity providers. Differences currently exist between the investor-owned utilities, rural electric cooperatives, and municipals. The participation of additional providers in the restructured electric market will add complexities to these differences. To the extent possible, the participants in this market should be distinguished by the product and services they offer, and not by differences in the rules under which they operate.