

# **INTERIM JOINT COMMITTEE ON NATURAL RESOURCES AND ENERGY**

## **Minutes of the 3rd Meeting of the 2019 Interim**

**August 20, 2019**

### **Call to Order and Roll Call**

The 3rd meeting of the Interim Joint Committee on Natural Resources and Energy was held on Tuesday, August 20, 2019, at 3:00 PM, in Room 149 of the Capitol Annex. Representative Jim Gooch Jr., Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Brandon Smith, Co-Chair; Representative Jim Gooch Jr., Co-Chair; Senators Jared Carpenter, C.B. Embry Jr., Robby Mills, Reginald Thomas, Whitney Westerfield, and Phillip Wheeler; Representatives John Blanton, Charles Booker, Adam Bowling, Terri Branham Clark, R. Travis Brenda, Randy Bridges, Jim DuPlessis, Daniel Elliott, Chris Fugate, Derek Lewis, Suzanne Miles, Melinda Gibbons Prunty, Cherlynn Stevenson, and Rob Wiederstein.

Guests: Talina Mathews, Commissioner, Kentucky Public Service Commission.

LRC Staff: Stefan Kasacavage, Janine Coy-Geeslin, Tanya Monsanto, Silas Montgomery, and Rachel Hartley.

### **Utility Ratemaking 101 and An Update from the Public Service Commission**

Talina Mathews stated the Public Service Commission (PSC) regulates 1,100 jurisdictional utilities, including: water and sewer utilities, natural gas distribution systems and intrastate pipelines, electric utilities, and telecommunications. The PSC does not regulate most municipal utilities or utilities regulated by the Tennessee Valley Authority. Utilities are allowed to recover the cost of serving customers and to earn a reasonable rate of return on capital investments.

Ms. Mathews provided an overview of the PSC ratemaking process and rate design. The PSC ensures rates are fair, just, and reasonable and utilities must provide safe and reliable service. Ms. Mathews explained the role of revenue requirements and the types of costs that are included in determining rates, including incentives. All costs must be prudently incurred.

In July 2019, the PSC opened an administrative case to take public comments on implementation of 2019 SB100 relating to compensation rates for net metering customers. The PSC also opened an investigation and adjusted rates downward after the Tax Cut and Jobs Act was signed into law by President Trump in 2017 to ensure that utilities' tax savings under the Act were passed through to ratepayers.

Ms. Mathews provided a brief update on the explosion of a gas line in Lincoln County and stated the PSC did not regulate that line.

In response to a question from Representative Gooch, Ms. Mathews stated a demand charge is an additional fee that industrial customers pay for maintaining a constant supply of electricity. The demand charge is based on the peak electricity usage of the customer during a billing period. The customer charge is an average that all residential customers pay.

In response to a question from Representative DuPlessis, Ms. Mathews stated the customer charge is used to cover basic infrastructure, and the demand charge is to cover infrastructure associated with the larger load.

In response to a question from Senator Thomas, Ms. Mathews stated New York does not regulate its utilities and has been experiencing blackouts. Kentucky has not experienced a similar problem, because Kentucky chose not to deregulate, has good reserve requirements, and has an adequate gas supply chain to serve generators.

In response to a question from Representative Brenda, Ms. Mathews stated most buried utility lines are breached due to excavating.

In response to a question from Representative Gooch, Ms. Mathews stated some utilities choose not to request a rate increase, because it is expensive for the utilities.

In response to a question from Representative Bowling, Ms. Mathews stated that what constitutes a reasonable rate of return depends on the utility's profile and sector. A reasonable rate of return is ordinarily seven to nine percent.

In response to a question from Senator Wheeler, Ms. Mathews stated that statutorily, utilities cannot recover a loss in revenue of more than 15 percent. Some utilities have waited too long to request rate increases, and as a result they have not properly maintained their infrastructure which is now failing. The PSC is streamlining a process for electric cooperatives to make the rate case process less costly and time-consuming.

There being no further business, the meeting was adjourned.