

INTERIM JOINT COMMITTEE ON NATURAL RESOURCES AND ENERGY

Minutes of the 6th Meeting of the 2022 Interim

November 3, 2022

Call to Order and Roll Call

The 6th meeting of the Interim Joint Committee on Natural Resources and Energy was held on Thursday, November 3, 2022, at 1:00 PM, in Room 154 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 Denise Harper Angel, Adrienne Southworth, Phillip Wheeler; Representatives Randy Bridges, Tom Burch, Ryan Dotson, Patrick Flannery, Chris Fugate, DJ Johnson, Norma Kirk-McCormick, Pamela Stevenson, Bill Wesley, and Richard White.

Guests: Kent Chandler, Chairman, Public Service Commission.

LRC Staff: Stefan Kasacavage, Kayla Carroway, Tanya Monsanto, and Rachel Hartley.

Discussion of Issues Relating to the Public Service Commission

Kent Chandler stated the Public Service Commission (PSC) is a three-member independent regulatory agency, which regulates non-municipal utilities in Kentucky. The PSC does not regulate cooperatives served by the Tennessee Valley Authority. Since 1934, the primary statutory directive of utility regulation in Kentucky revolves around fair, just, and reasonable rates and adequate, efficient, and reasonable service.

Mr. Chandler stated that regulatory asset securitization is a process that would allow utility customers to effectively buy an asset from the utility using money provided by bonds financed by lenders. Since the utility earns an equity and debt return on their own investments, replacing that investment with only debt capital reduces the financing costs of that asset. Securitization could be useful in reducing the costs for financing some nonrecurring, one-time, extreme, or otherwise unusual utility costs, like the retirement of an electric generating unit before its cost has been fully recovered by the utility. About one-half of states have adopted legislation allowing regulatory asset securitization. As of May 2022, \$62 billion of utility securitization bonds nationwide have been issued by electric utilities, ranging from \$22 million to \$4 billion issuances.

The energy market trends that impact utility regulation include the fuel adjustment clause, integrated resource planning, certificates of public convenience and necessity, and rate cases.

Regulatory considerations by the PSC include plant retirements, reliability and resource adequacy, costs of emerging technologies, and wholesale markets. The PSC is committed to ensuring utilities have enough generating capacity to meet demand. Kentucky's current electricity generation mix includes 69 percent coal, 23 percent natural gas, 7 percent hydroelectric, and 0.5 percent renewable energy.

In response to Representative Gooch, Mr. Chandler stated the PSC does not limit the amount a utility can invest. The PSC does limit how much a utility can recover from ratepayers.

In response to Senator Smith, Mr. Chandler stated the PSC is unable to change a federal determination of rates.

In response to Representative Kirk-McCormick, Mr. Chandler stated he would research what the base-rate for water is in Martin County.

In response to Representative Johnson, Mr. Chandler stated if the cost of keeping a coal-fired plant open is more than the cost of a replacement then the best option for ratepayers is for the coal-fired plant to retire earlier than planned. Representative Johnson stated environmental requirements are causing early retirements.

In response to Senator Wheeler, Mr. Chandler stated it is often cheaper to retire and replace coal-fired plants than to retrofit them. Senator Wheeler stated the sun and wind are intermittent energy sources, so a baseload generation mix of coal and natural gas is needed to achieve grid reliability.

In response to Representative Dotson, Mr. Chandler stated a utility is unable to borrow against a decommissioned asset when it is securitized.

In response to Representative Flannery, Mr. Chandler stated the PSC must approve a utility's debt before it is incurred.

In response to Representative Kirk-McCormick, Mr. Chandler stated a school near the decommissioned Big Sandy plant will no longer receive \$1 million in annual taxes from the plant.

In response to Senator Wheeler, Mr. Chandler stated securitization of the decommissioned Big Sandy plant would save ratepayers approximately \$7 million to \$9 million.

There being no further business, the meeting was adjourned.