PSC Issues Order on Net Metering Tariff in Kentucky Power Rate Case

Adjustments made to company's avoided cost rate for determining compensation

FRANKFORT, Ky (May 14, 2021)—Today, the Kentucky Public Service Commission issued an order approving a compensation rate for energy exported from net metering customers under Kentucky Power's newly offered net metering tariff, NMS II. This compensation rate is a modification of Kentucky Power's proposed export rate. With today's Order residential and commercial net metering customers taking service after May 15, 2021, will be compensated for the electricity they export at a dollar-denominated rate established in NMS II. Net metering customers with generating facilities that were placed in service prior to May 15, 2021, will continue to take service under the previous net metering tariff, renamed Tariff NMS I. Tariff NMS I is a continuation of past net metering practices where customers are allowed to net their electricity exports against their electricity usage, on a kWh basis.

A decision in the net metering portion of Kentucky Power's rate case, Case No. 2020-00174, was deferred in the January 13, 2021, Order to allow more scrutiny of the proposal given this was the first case following significant changes in Kentucky's net metering statute. The 2019 amendments to the net metering law established a procedure by which each retail electric supplier may use the ratemaking process to implement new rates, either to compensate customers with a dollar-denominated value for exported electricity and/or "to recover all costs necessary to serve eligible customer-generators."

Kentucky Power proposed a compensation rate based on an avoided cost methodology. Avoided costs are the incremental costs a utility would incur if the utility were to purchase, spend or generate the same amount of service from another source absent the net metered customer's service. The Commission's Order establishes a compensation rate based on the avoided cost methodology, however it expands the components that are factored into the avoided cost rate to ensure a just and reasonable estimate of avoided generation, distribution and transmission capacity, energy, and ancillary service costs, as well as avoided environmental costs. In determining the NMS II rates, "the Commission used only categories of avoided costs either (1) used or proposed to be used by Kentucky Power in this matter, or (2) used or relied upon by Kentucky Power in planning its transmission, distribution or generation systems." The Commission's adjustments to the avoided cost methodology address issues of transparency and consistency that were lacking in Kentucky Power's proposal. As stated in Case No. 2019-00256, "[t]he Commission must develop a process that identifies known or reasonably expected measurable costs and benefits that can be factored into the ratemaking process."

Specifically, with today's Order, residential net metering customers who take service under Kentucky Power's Tariff NMS II will be compensated for exported electricity at $0.09746 per kWh, compared with Kentucky Power's proposed rate of $0.03553 per KWh. The Order denied Kentucky Power's proposal to implement two time-of-use netting periods, instead directing Kentucky Power to net the total electricity consumed and the total electricity exported over the monthly billing period, similar to the long-standing net metering that is now renamed tariff NMS I.

The table below provides a breakdown of the avoided costs used to determine the NMS II export rate for residential and commercial customers.

	Residential NMS II Export Rate	**Commercial NMS II Export Rate**
Energy	$0.03893	$0.03893
Ancillary Services	$0.00063	$0.00063
Generation Capacity	$0.02816	$0.03549
Transmission Capacity	$0.01245	$0.00798
Distribution Capacity	$0.01046	$0.00671
Carbon Cost	$0.00578	$0.00578
Environmental Compliance Cost	$0.00105	$0.00105
Job Benefits	-	-
NMS Price for Excess Gen	**$0.09746**	**$0.09657**

The Order also clarifies that the statute establishes the effective date of Tariff NMS II to be the date of the initial Commission net metering order. Therefore, customers with eligible net metering generating facilities placed into service on or after May 15, 2021, and not January 1, 2020, as Kentucky Power had proposed, will be eligible for Tariff NMS II.

Existing net metering customers who are taking service under the current net metering tariff, revised to NMS I, per statute, have a 25-year period as legacy customers under the one-to-one kWh compensation. Today's Order clarifies the 25-year legacy period begins with the effective date of a successor rate. In other words, customers currently under Kentucky Power's NMS I Tariff will continue under the terms of that tariff for a 25-year period beginning on May 15, 2021. An eligible generating facility must be in service (in other words, cannot be pending application) prior to the effective date of the Commission's approval of NMS II for the eligible customer-generator to be eligible to take service under NMS I.

Kentucky Power proposed to require legacy customers to file a new application if those customers made a material change to an existing eligible generating facility prior to the effective date of the Order approving NMS II. Kentucky net metering statutes do not address this issue; however, the Interconnection and Net Metering Guidelines approved by the Commission in Administrative Case No. 2008-00169 provide that, absent written permission by a utility, an increase in generating capacity of an eligible facility will require a new application for interconnection and net metering. Today's Order addresses additional aspects regarding material changes and battery storage.

The Commission denied Kentucky Power's proposed application fee and initial impact study fee, which were not in accordance with an existing Commission Order in Case No. 2008-00169 regarding net metering fee structures.

Today's Order outlines several principles for net-metering compensation and rate design, including the following:

- Evaluate eligible generating facilities as a utility system or supply-side resource.
- To avoid bias, treat benefits and costs symmetrically.
- Conduct forward-looking, long-term, and incremental analysis.
- Ensure transparency and consistency (in assumptions, methodologies, etc) to create trust between parties and allow for a robust public process around resource evaluation.
- Adhere to rate-making standards of stability and simplicity.

The Commission notes that as the number of distributed energy resources (DERs) are currently relatively few across the state, there is opportunity today to establish a comprehensive framework for integrating larger numbers of DERs into the future, and a comprehensive, forward-looking approach benefits customers, the utilities, and local communities.

Intervenors in the case were the Attorney General, by and through the Office of Rate Intervention; Kentucky Industrial Utility Customers, Inc.; Walmart Inc.; Kentucky Solar Industries Association, Inc.; Mountain Association (formerly Mountain Association for Community Economic Development, Kentuckians for the Commonwealth, and Kentucky Solar Energy Society (collectively, Joint Intervenors); SWVA Kentucky, LLC; and Sierra Club.

The PSC conducted an evidentiary hearing on April 6 & 7, 2021.

Today's order and other records in the case are available at psc.ky.gov. The case number is 2020-00174.

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