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Report: Weak PSC oversight benefits Alabama Power at customers' expense

MONTGOMERY, Ala. – Alabama Power earns higher profits than most utilities nationwide while leaving customers paying more for their electricity than customers in all Southern states but Florida, according to a report released today by Arise Citizens' Policy Project (ACPP).

“The outdated way Alabama sets electricity rates is hurting families and businesses,” ACPP executive director Kimble Forrister said. “It’s not just numbers on paper. When people are living paycheck to paycheck, having to spend so much of their income on electricity bills really hurts.”

The Public Service Commission’s mission is to ensure a “balance between regulated companies and consumers in order to provide consumers with safe, adequate and reliable services at rates that are equitable and economical.” That balance, Forrister said, “is tilted heavily in favor of Alabama Power,” according to research conducted for ACPP by the Institute for Energy Economics and Financial Analysis (IEEFA).

Most states oversee electric utility monopolies through a process that requires corporations to justify their rates through evidentiary hearings where energy and economics experts can examine data and cross-examine utility staff. Alabama abolished that type of system in 1982, instead adopting a formula – called Rate Stabilization and Equalization (RSE) – that allows Alabama Power to adjust charges each year without any public hearings or consumer participation. There has not been a publicly contested rate case for Alabama Power in 30 years.

The result has been a boon for Alabama Power, which earns a return on equity of 13 percent to 14.5 percent, more than 40 percent higher than the average 9.4 percent earned by 76 other utilities from 2008-11, the report finds. Meanwhile, the company’s residential customers pay more for their electricity as a percentage of median income than in any state but Mississippi.

“I’ve been doing this work for almost 40 years, and I have never seen a regulatory system so out of balance in favor of a utility,” said David Schlissel, an expert on utility regulation and resource planning, who authored the report. “There is no transparency as to how the Public Service Commission determines what it allows Alabama Power to charge people for their electricity. Unlike almost every other state in the nation, the

regulatory process in Alabama is fast-tracked, conducted behind closed doors and without any meaningful opportunity for ratepayers to participate.”

Forrister said the reasons the current system was created are no longer valid. The RSE was established at a time of skyrocketing interest rates and soaring electricity demand, and Alabama Power responded by spending billions on new hydroelectric, coal and nuclear plants and transmission lines. To cover costs for those projects, the company repeatedly raised rates, which infuriated customers and ultimately led the PSC to adopt the current rate-setting process to ease the confrontational nature of the hearings.

Now, however, interest rates are at record lows, and Alabama Power faces none of the same financial risks or pressures to expand its power fleet, the report says. Forrister said the report provides strong justification for the PSC to right a ship that sailed off course a long time ago, particularly since customers in states that have a robust system for reviewing how electricity rates are set have fared far better than Alabama.

“For 30 years, the commission has allowed a monopoly to write its own meal ticket without anyone asking tough questions,” he said. “It’s time for the PSC to overhaul the current system and return to formal public hearings.”

*A copy of the full report is available online at www.arisecitizens.org
or by request from Arise Citizens’ Policy Project.*

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Arise Citizens’ Policy Project is a nonprofit, nonpartisan coalition of 140 congregations and organizations promoting public policies to improve the lives of low-income Alabamians.