

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF KENTUCKY	)	CASE NO.
POWER COMPANY FOR THE SIX-MONTH	)	2010-00318
BILLING PERIOD ENDING JUNE 30, 2010	)	

ORDER

On September 7, 2010, the Commission initiated a six-month review of Kentucky Power Company's ("Kentucky Power") environmental surcharge<sup>1</sup> as billed to customers for the six-month period January 1, 2010 to June 30, 2010.<sup>2</sup> Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable pursuant to KRS 278.183(1).

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<sup>1</sup> Kentucky Power was authorized to implement an environmental surcharge in Case No. 1996-00489, The Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products (Ky. PSC May 27, 1997).

<sup>2</sup> Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings for January 2010 recover costs incurred in November 2009, and every subsequent monthly surcharge billing under review recovers costs incurred two months prior to billing.

The Commission issued a procedural schedule on September 7, 2010, that provided for discovery, the filing of prepared testimony, and an informal conference. Kentucky Power filed its response to requests for information and appeared at an informal conference on October 14, 2010. There were no parties requesting intervenor status to this proceeding. In its response to the Commission's Order of December 10, 2010, Kentucky Power stated that there were no material issues of fact that warranted a hearing in this case. The matter now stands submitted for a decision based on the evidentiary record.

### SURCHARGE ADJUSTMENT

The September 7, 2010 Order initiating this case indicated that, since the period under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. Kentucky Power determined that it had a net over-recovery of its environmental costs in the amount of \$49,885.<sup>3</sup> Kentucky Power proposed that the net over-recovery be refunded by decreasing the total jurisdictional environmental surcharge amount by a one time adjustment of \$49,885 in its first monthly surcharge filing following the Commission's decision in this proceeding.<sup>4</sup>

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<sup>3</sup> In the preparation of its response in the instant case, Kentucky Power determined it also had an under-recovery of \$44,633 from the prior six-month review period that it has proposed to net with the over-recovery amount of \$94,518 for the current period under review for a net over-recovery amount of \$49,885. See, Kentucky Power's Response to Commission Staff's October 14, 2010 Informal Conference Data Request dated October 28, 2010, Item 1.

<sup>4</sup> Munsey Direct Testimony dated September 30, 2010 at 9.

Having reviewed the record, the Commission finds Kentucky Power's calculation of a net over-recovery of \$49,885 to be reasonable. The Commission also finds reasonable Kentucky Power's proposal to refund the over-recovery amount by a one time adjustment of \$49,885 in its first monthly surcharge filing following the date of this Order.

#### RATE OF RETURN

In Case No. 1996-00489, the Commission found that Kentucky Power's debt portion of its weighted average cost of capital should be reviewed and reestablished during each six-month review case and that the rate of return on common equity would remain fixed and subject to review during the two-year environmental surcharge reviews. The weighted average cost of capital constitutes the rate of return applicable to Kentucky Power's environmental compliance rate base.<sup>5</sup>

Kentucky Power provided the outstanding balances for its long-term debt, short-term debt, accounts receivable financing, and common equity as of April 30, 2010, the last expense month of the review period. It also provided the blended interest rates for the long-term debt, short-term debt, and accounts receivable financing as of April 30, 2010.<sup>6</sup> Using this information, Kentucky Power calculated a weighted average cost of capital, before income tax gross-up, of 8.03 percent.<sup>7</sup> Kentucky Power also provided its

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<sup>5</sup> This weighted average cost of capital is applied only to the environmental compliance rate base associated with plant installed at Kentucky Power's Big Sandy generating units.

<sup>6</sup> Response to the Commission Staff's First Information Request dated September 30, 2010, Item 13.

<sup>7</sup> Id.

updated income tax gross-up factor reflecting the methodology<sup>8</sup> approved in Case No. 2005-00068.<sup>9</sup>

The Commission has reviewed Kentucky Power's determination of its weighted average cost of capital and finds the 8.03 percent calculation to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2005-00068. Therefore, the Commission finds that the weighted average cost of capital of 8.03 percent and the income tax gross-up factor of 1.5785 should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky Power shall reduce its jurisdictional environmental revenue requirement determined in the first billing month following the date of this Order by \$49,885 as discussed herein.


2. Kentucky Power shall use a weighted average cost of capital of 8.03 percent and a tax gross-up factor of 1.5785 in all monthly environmental surcharge filings subsequent to the date of this Order.

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<sup>8</sup> Response to the Commission Staff's October 14, 2010 Informal Conference Data Request dated October 28, 2010, Item 5, page 2 of 3. In the response, Kentucky Power determined that its updated income tax gross-up factor was 1.5785.

<sup>9</sup> Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC October 17, 2005).

By the Commission

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JAN 24 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST

  
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Executive Director

Case No. 2010-00318

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