

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	)	2011-00031
BILLING PERIOD ENDING DECEMBER 31, 2010	)	

O R D E R

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review the past operations of the environmental surcharge at six-month intervals. After hearing, the Commission may, by temporary adjustment to the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs that are recoverable pursuant to KRS 278.183(1). Therefore, the Commission hereby initiates the six-month review of the surcharge as billed from July 1, 2010 through December 31, 2010.<sup>2</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky

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<sup>1</sup> Case No. 1996-00489, 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 Wastes and By-Products (Ky. PSC May 27, 1997).

<sup>2</sup> Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2010 through December 2010 are based on costs incurred from May 2010 through October 2010.

Power is to file prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review. In addition, Kentucky Power is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since over- or under-recoveries may have occurred during the period under review in this proceeding, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its original compliance plan and surcharge mechanism. The environmental surcharge, as billed during the period under review, provides recovery of the incremental costs associated with the original compliance plan, as well as the costs associated with the first, second, and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS HEREBY ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.
2. Kentucky Power shall appear at the Commission's offices on the date set forth in Appendix A to submit itself to examination on the application of its environmental surcharge as billed to consumers from July 1, 2010 through December 31, 2010. There shall be no opening statements or summaries of testimony at the public hearing.

3. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within seven days of the Commission's granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

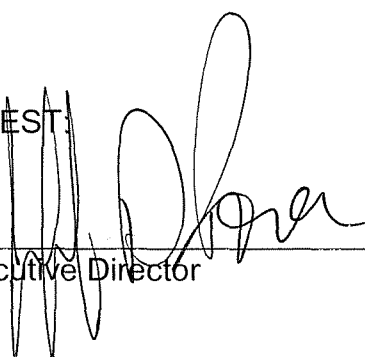
7. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

8. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

9. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ENTERED *sl*  
FEB 28 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:  
  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00031 DATED FEB 28 2011

- Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than.....03/25/11
- An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues.....04/14/11
- All additional requests for information to Kentucky Power shall be filed no later than.....05/03/11
- Kentucky Power shall file responses to additional requests for information no later than.....05/17/11
- Intervenor testimony, if any, in verified prepared form shall be filed no later than.....05/31/11
- All requests for information to Intervenors shall be filed no later than .....06/14/11
- Intervenors shall file responses to requests for information no later than .....06/28/11
- Public Hearing is to begin at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of Kentucky Power and Intervenors..... To be scheduled
- Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2011-00031 DATED FEB 28 2011

### FIRST INFORMATION REQUEST OF COMMISSION STAFF TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period under review. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. Refer to ES Form 3.11, the SO<sub>2</sub> Emissions Allowance Inventory, For the Expense Month of August 2010 – Lines, SO<sub>2</sub> Emissions Allowances (Year 2009 & Prior) and SO<sub>2</sub> Emissions Allowances (Years 2010 to 2014). Explain the primary reason(s) for the credit adjustment to the SO<sub>2</sub> Emissions Allowances (Year 2010 to

2014) and for the fluctuation in the expense for the August 2010 month compared to the other months in this review period.

4. Refer to ES Form 3.13, the Operation and Maintenance Expense summary, Line 10, Equipment – Associated Maintenance Expenses. Explain the primary reason(s) for the fluctuations in these maintenance expenses during the six expense months that make up this review period.

5. Refer to ES Form 3.14, Page 3 of 11, the Current Period Revenue Requirement, Ohio Power Company – Amos Plant Unit No. 3, Lines 6, 12 and 13. Explain the primary reason(s) for the addition of disposal and SCR and Scrubber Maintenance expenses in the July 2010 expense month compared to the preceding months of May 2010 and June 2010 in this review period.

6. Refer to ES Form 3.14, Page 3 of 11, the Current Period Revenue Requirement, Ohio Power Company – Amos Plant Unit No. 3, Line 10. Explain the primary reason(s) for the addition of steam expense in the October 2010 expense month compared to the preceding month of September 2010 in this review period.

7. Refer to ES Form 3.14, Page 3 of 11, the Current Period Revenue Requirement, Ohio Power Company – Amos Plant Unit No. 3, Line 8. Explain the primary reason(s) for the fluctuation in the Trona expense during the six expense months that make up this review period.

8. Refer to ES Form 3.14, Page 3 of 11, the Current Period Revenue Requirement, Ohio Power Company – Amos Plant Unit No. 3, Line 9. Explain the primary reason(s) for the fluctuation in the Lime Stone expense during the six expense months that make up this review period.

9. Refer to ES Form 3.14, Page 4 of 11, the Current Period Revenue Requirement, Ohio Power Company – Cardinal Unit 1, Line 4 Disposal. Explain the primary reason(s) for the fluctuation in this expense for the September 2010 expense month compared to the other months in this review period.

10. Refer to ES Form 3.14, Page 4 of 11, the Current Period Revenue Requirement, Ohio Power Company – Cardinal Unit No. 1, Lines 8, 9 and 10. Explain the primary reason(s) for the addition of polymer, lime hydrate and steam expenses in the September 2010 expense month compared to the preceding months in this review period.

11. Refer to ES Form 3.14, Page 5 of 11, the Current Period Revenue Requirement, Ohio Power Company – Gavin Plant (Units 1 & 2), Line 7. Explain the primary reason(s) for the fluctuation in the Trona expense for the May 2010 and July 2010 expense months compared to the other months in this review period.

12. Refer to ES Form 3.14, Page 5 of 11, the Current Period Revenue Requirement, Ohio Power Company – Gavin Plant (Units 1 & 2), Line 9. Explain the primary reason(s) for the addition of polymer expense in the August 2010 expense month compared to the preceding months in this review period.

13. Refer to ES Form 3.14, Page 7 of 11, the Current Period Revenue Requirement, Ohio Power Company – Mitchell Plant (Units 1 & 2), Lines 8 and 9. Explain the primary reason(s) for the addition of lime hydrate and polymer expenses in the August 2010 expense month compared to the preceding months in this review period.



14. Refer to ES Form 3.14, Page 7 of 11, the Current Period Revenue Requirement, Ohio Power Company – Mitchell Plant (Units 1 & 2), Line 10. Explain the primary reason(s) for the fluctuation in the FDG Maintenance expense during the six expense months that make up this review period.

15. Refer to ES Form 3.14, Page 8 of 11, the Current Period Revenue Requirement, Ohio Power Company – Muskingum River Plant (Units 1, 2, 3, 4 & 5), Line 8. Explain the primary reason(s) for the fluctuation in the SCR maintenance expense for the May 2010 expense month compared to the other months in this review

16. Provide the following information as of October 31, 2010. Provide the information in hard copy and in electronic format with the formulas intact and unprotected.

a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.

b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

d. Determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

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