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Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet



Commonwealth of Kentucky
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David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

November 26, 2013

PARTIES OF RECORD

Re: Case No. 2013-00325

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum concerning the November 14 and 21, 2013 Informal Conferences, please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Staff Attorney, at 502/782-2581.

Sincerely,



Jeff Derguen
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2013-00325

FROM: Jonathan Beyer, Staff Attorney

DATE: November 26, 2013

RE: Informal Conferences of November 14 and 21, 2013

Informal conferences were held in this matter on November 14 and 21, 2013 at the Commission's office in Frankfort, Kentucky. Lists of attendees are attached to this memorandum.

In the course of the November 14, 2013 conference, Staff requested additional clarification regarding Kentucky Power Company's (KY Power) response to Staff's Initial Request for Information item number 9. Staff asked clarifying questions related to testimony filed in the case and made specific inquiries regarding the SO₂ allowances. Finding that additional information would be beneficial to the explanation, KY Power and Staff agreed to adjourn the conference and reconvene at a later date so as to permit the attendance of personnel from KY Power's parent corporation, American Electric Power ("AEP").

On November 21, 2013, the parties reconvened with the attendance of Mike Giardina, an AEP representative. Mr. Giardina detailed the Interim Allowance Agreement ("IAA") and the manner in which KY Power accounts for its emission allowances. Handouts distributed by Mr. Giardina are attached to this memorandum.

The parties, at both informal conferences, briefly discussed the resetting of KY Powers environmental surcharge and the necessity of KY Power to continue submitting its monthly environmental surcharge filings.

Finding that no party had any further questions, the conference was adjourned.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF KENTUCKY) 2013-00325
POWER COMPANY FOR THE TWO-YEAR)
BILLING PERIOD ENDING JUNE 30, 2013)

Please sign in:

NAME

REPRESENTING

Jonathan Bayor

PSC

Ronie Washbas

KPC

LILA MUNSEY

KPCo

Amy Elliott

KPCo

MARK R. OVERSTREET

STILES HARRISON RE KPCo

Jim LIVERS

PSC

Errol K. Woyner

PSC

Ron Handziak

PSC-FA

RICHARD RAFF

PSC-LEGAL

COMMONWEALTH OF KENTUCKY

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BILLING PERIOD ENDING JUNE 30, 2013)

November 21, 2013

Please sign in:

NAME	REPRESENTING
<u>Amy Elliott</u>	<u>KPCo</u>
<u>Mike Grandin</u>	<u>AEP</u>
<u>MARK R. OVERSTREET</u>	<u>STITES & HARBISON</u>
<u>LILA MUNSEY</u>	<u>KPCo</u>
<u>Ron Handziak</u>	<u>PSC-FA</u>
<u>Errol Wagner</u>	<u>PSC-FA</u>
<u>Jim Livers</u>	<u>PSC-FA</u>
<u>Jonathan Beyer</u>	<u>PSC-Legal</u>

IAA Settlement Determination Summary

- The IAA was settled in December 2011. The next two pages provide detail of the IAA transactions. Page 2 illustrates the calculation of allowance quantities, while Page 3 shows the calculation of allowance dollars. Due to CAIR's differing treatment of allowances, the Company's accounting practice is to keep two separate inventories. One inventory includes emission allowances with a vintage year of 2009 or prior, while a second inventory includes emission allowances with a vintage year of 2010 or later. Allowances in the first inventory can be surrendered to the EPA on a 1 allowance per 1 ton ratio. Allowances in the second inventory are surrendered at a 2:1 ratio. These two groupings are shown separately on the following pages.

- The first step in executing the IAA Transactions is to calculate the quantities of allowances that are required to be moved between the pool companies. Page 2 shows these calculations. There is a Gavin Reallocation transaction, and then the transactions to settle Primary & Economy Energy transfers. Once these transactions have been settled, and each pool member's new inventory balance has been calculated, the final transaction is calculated to permit each member to own a share of the System Allowance Bank, based on its current Member Load Ratio.

- In the final step, shown on Page 3, a transaction price is applied to the transaction quantities. The prices used are prescribed by the IAA. In the case of purchases, allowance quantities and dollars are added to the pool member's inventory. In the case of a sale, allowance quantities and inventory cost is removed from the sellers inventory, and a resulting gain or loss is recorded based on the difference between sales proceeds and inventory cost.

December 2011 IAA Settlement
Calculation of Allowance Quantities for IAA Transactions*

2009 & Prior Vintage Years Emission Allowance Settlement

	APCO	CSP	I&M	KYP	OPCO	TOTAL
Balance @ Nov. 30, 2011	88,026	74,795	26,600	0	0	189,421
Dec. 2011 Consumption	(1,335)	(1,674)	(6,710)	0	0	(9,719)
December Issuances	0	0	0	0	0	0
Subtotal Before IAA Transactions	86,691	73,121	19,890	0	0	179,702
Gavin Reallocation Purch/(Sale)*	0	0	0	0	0	0
Subtotal	86,691	73,121	19,890	0	0	179,702
P&E Transfers - Sale*	(28,370)	(10,125)	(2,334)	0	0	(40,829)
P&E Transfers - Purch*	0	0	0	484	40,345	40,829
Subtotal	58,321	62,996	17,556	484	40,345	179,702
System Allowance Bank Purch/(Sale)*	(2,288)	(28,308)	18,381	11,373	842	0
Balance @ Dec. 31, 2011	<u>56,033</u>	<u>34,688</u>	<u>35,937</u>	<u>11,857</u>	<u>41,187</u>	<u>179,702</u>
<i>Dec. 2011 MLR</i>	<i>0.31181</i>	<i>0.19303</i>	<i>0.19998</i>	<i>0.06598</i>	<i>0.22920</i>	<i>1.00000</i>
<i>Target Inventory Level</i>	<i>56,033</i>	<i>34,688</i>	<i>35,937</i>	<i>11,857</i>	<i>41,187</i>	<i>179,702</i>

2010 & 2011 Vintage Years Emission Allowance Settlement

	APCO	CSP	I&M	KYP	OPCO	TOTAL
Balance @ Nov. 30, 2011	329,528	116,306	158,486	33,824	229,149	867,293
Dec. 2011 Consumption	0	0	0	(8,326)	(19,096)	(27,422)
December Issuances	0	0	0	0	0	0
Subtotal Before IAA Transactions	329,528	116,306	158,486	25,498	210,053	839,871
Gavin Reallocation Purch/(Sale)*	65,833	4,479	0	9,897	(80,209)	0
Subtotal	395,361	120,785	158,486	35,395	129,844	839,871
P&E Transfers - Sale*	0	0	0	0	0	0
P&E Transfers - Purch*	0	0	0	0	0	0
Subtotal	395,361	120,785	158,486	35,395	129,844	839,871
System Allowance Bank Purch/(Sale)*	(133,480)	41,335	9,471	20,020	62,654	0
Balance @ Dec. 31, 2011	<u>261,881</u>	<u>162,120</u>	<u>167,957</u>	<u>55,415</u>	<u>192,498</u>	<u>839,871</u>
<i>Dec. 2011 MLR</i>	<i>0.31181</i>	<i>0.19303</i>	<i>0.19998</i>	<i>0.06598</i>	<i>0.22920</i>	<i>1.00000</i>
<i>Target Inventory Level</i>	<i>261,881</i>	<i>162,120</i>	<i>167,957</i>	<i>55,415</i>	<i>192,498</i>	<i>839,871</i>

**December 2011 IAA Settlement
Calculation of Allowance Dollars for IAA Transactions**

	<u>Vintage</u>	<u>Quantity (Sold) Purch</u>	<u>Transaction Price (\$/Allowance)</u>	<u>Dollars Added to Inventory</u>
APCO				
Gavin Reallocation	2010/2011	65,833	\$0.00	\$0
P&E Transfers	2009/Prior	(28,370)	\$20.73	
System Allowance	2009/Prior	(2,288)	\$575.29	
System Allowance	2010/2011	(133,480)	\$287.65	
CSP				
Gavin Reallocation	2010/2011	4,479	\$0.00	\$0
P&E Transfers	2009/Prior	(10,125)	\$197.87	
System Allowance	2009/Prior	(28,308)	\$575.29	
System Allowance	2010/2011	41,335	\$287.65	\$11,890,013
I&M				
P&E Transfers	2009/Prior	(2,334)	\$336.99	
System Allowance	2009/Prior	18,381	\$575.29	\$10,574,405
System Allowance	2010/2011	9,471	\$287.65	\$2,724,333
KYP				
Gavin Reallocation	2010/2011	9,897	\$0.00	\$0
P&E Transfers	2009/Prior	484	\$82.74	\$40,044
System Allowance	2009/Prior	11,373	\$575.29	\$6,542,773
System Allowance	2010/2011	20,020	\$287.65	\$5,758,753
OPCO				
Gavin Reallocation	2010/2011	(80,209)	\$0.00	
P&E Transfers	2009/Prior	40,345	\$82.74	\$3,337,992
System Allowance	2009/Prior	842	\$575.29	\$484,394
System Allowance	2010/2011	62,654	\$287.65	\$18,022,423

Allowance Management System
Consumption Recap Data For the Month Ended Decemb 2012

Allowance Type: S2

KPCo

	January	February	March	April	May	June	July	August	September	October	November	December	YTD
EMISSION TONS													
Actual Emission Tons	2,856	1,414	2,101	3,716	1,323	3,577	4,451	3,917	821	707	778	1,820	27,482
Estimated Emission Tons	0	0	0	0	65	0	280	0	0	0	26	0	371
Change from Prior Month	0	-0.26	0.14	-0.63	0.44	12.18	1.31	-10.51	0.72	1.04	0.26	-1.56	3.14
Current Month Posted Tons	2,856	1,414	2,102	3,715	1,388	3,589	4,732	3,906	821	708	804	1,820	27,855
PRELIMINARY CONSUMPTION													
Banked Quantity:	622	1,414	215										2,251
Current : 1:1													
Current : 2:1	4,468		3,774	7,430	2,776	7,178	9,464	7,812	1,642	1,416	1,608	3,640	51,208
Total Current Quantity:	4,468		3,774	7,430	2,776	7,178	9,464	7,812	1,642	1,416	1,608	3,640	51,208
Cost of Consum. : Banked	\$345,324.49	\$785,030.27	\$119,364.58										\$1,249,719.35
Cost of Consum. : Current	\$348,072.49		\$293,985.49	\$578,779.07	\$216,243.70	\$559,148.88	\$737,222.76	\$608,535.95	\$127,907.84	\$110,302.98	\$125,259.32	\$435,263.18	\$4,140,721.68
Avg Unit Price : Banked	\$555.18	\$555.18	\$555.18	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$636.04	
Avg Unit Price : Current	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$77.90	\$119.58
OTHER CONSUMPTION													
Surrender Allowances (Qty)													
Prior Year Adjmt: Banked	9,606												9,606
Prior Year Adjmt: Current	-19,170	28											-19,142
Cost of Consum. : Banked	\$5,333,098.15												\$5,333,098.15
Cost of Consum. : Current	-\$1,930,099.70	\$2,819.13											-\$1,927,280.56
CONSUMPTION TOTALS													
Cost Sent To G/L	\$4,096,395.43	\$787,849.41	\$413,350.07	\$578,779.07	\$216,243.70	\$559,148.88	\$737,222.76	\$608,535.95	\$127,907.84	\$110,302.98	\$125,259.32	\$435,263.18	\$8,796,258.61
Avg Cost per Ton	\$1,434.31	\$557.18	\$196.65	\$155.80	\$155.80	\$155.80	\$155.80	\$155.80	\$155.80	\$155.80	\$155.80	\$239.16	