

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

THE APPLICATION OF KENTUCKY POWER)
COMPANY FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY AUTHORIZING) CASE NO. 7179
IT TO ACQUIRE AN INTEREST IN GENERATING)
UNITS AND FOR AUTHORITY TO ISSUE NOTES)

ORDER ON REMAND

On July 19, 1978, Kentucky Power Company ("Kentucky Power" or "Company") filed an application with the public Service Commission of Kentucky ^{1/} ("Commission") for a certificate of public convenience and necessity authorizing it to purchase additional generating capacity in a plant currently being constructed by the Indiana & Michigan Electric Company near Rockport, Indiana. Kentucky Power proposed to purchase 15% of this Indiana plant for \$187 million, \$100 million of which the Company proposed to borrow (ERC Record, 4). Pursuant to KRS 278.020(1), the Commission held a hearing on this matter on August 10, 1978, at which time the Attorney General intervened in opposition to the grant of the requested certificate.

At the hearing, Kentucky Power testified that its present generating capacity in Kentucky was 1060 MW (T.E. I, 15), and that its maximum demand in January 1978 by Kentucky customers was 752 MW (T.E. I, 8). The Company further stated that since 1969 it has generated more electric power in Kentucky than its customers needed, so it has sold this power to other utilities both within and without the AEP ^{2/} system (TE. I, 35). Kentucky Power then testified that its internal studies predicted a 10% growth in the electric needs of its Kentucky customers between 1979

^{1/}Predecessor to the Energy Regulatory Commission.

^{2/}American Electric Power

and 1980, and a 7.2% annual growth thereafter (T.E. I), 13). Based upon this projected load growth, Kentucky Power predicted it would reach the limits of its Kentucky generating plant by the winter of 1981-82 (T.E. I, 8). The Company also testified that its past projections of load growth have been too high by as much as 5% (T.E. I, 35).

Kentucky Power also discussed its plans to build two new generating units in Kentucky near Carrs, in Lewis County. These two units will have a combined capacity of 2600 MW, and power from the plant will be available to serve Kentucky customers sometime between 1984 and 1985. (T.E. I, 8, 27). The Company indicated that this new plant will be more than adequate to serve all of the needs of its Kentucky customers, with a large surplus available to sell to other utilities (T.E. II, 94). Kentucky Power further stated that it is currently considering sale of some of this excess generating capacity to other members of the AEP system (T.E. I, 42).

Indiana & Michigan Electric Company ("I & M"), another member of the AEP system, is also constructing a 2600 MW generating plant on the Ohio River near Rockport, Indiana. The first unit of this plant was projected to be operational by 1982, and the plant's total cost is estimated to be \$1.3 billion (ERC Record, 2). As originally planned, this plant was to be 100% financed by I & M (T.E. II, 62). However, as an alternative to full ownership of the proposed Lewis County, Kentucky plant, Kentucky Power requested that it be allowed to purchase 15% of the I & M plant, at a cost of \$187 million to be paid to I & M between 1979 and 1982 (ERC Record, 2; T.E. II, 45).

As a member of the AEP system, Kentucky Power is allowed to buy additional power needed for its Kentucky customers from other members of the AEP system who have generating

capacity ^{3/} (T.E. I, 45). Kentucky Power, in fact, relied solely on power from its sister companies to supply the needs of its Kentucky customers prior to the completion of the first unit of its Kentucky plant in 1963. Again, from 1966 to 1969, Kentucky Power drew upon the AEP pool for power until the completion of its second Big Sandy unit in 1969 (T.E. I, 36).

Kentucky Power testified that the AEP system, as a whole, currently has generating capacity that exceeds its entire system load requirements by 34% (T.E. II, 102). When questioned by the Commission, Kentucky Power testified that it had made no studies as to whether or not the Company could meet the shortfall in generating capacity it projects to begin in 1982 and last until 1984 or 1986 (when the first unit of the new Lewis County, Kentucky plant comes on line) by purchasing excess power from its sister companies in the AEP pool as it did in 1966-69 (T.E. I, 37). The Commission then asked if Kentucky Power had done any studies on the more specific question of whether it would be cheaper for Kentucky Power to simply purchase power from the new I & M. plant rather than to buy a 15% ownership interest in that plant. Again, the Company responded that no such studies had ever been conducted (T.E. I, 39-40).

Referring to the \$187 million currently estimated as Kentucky Power's cost of purchasing a 15% interest in the I & M. plant, the Commission inquired as to whether there would be any limit on Kentucky Power's total costs of participation in the event of cost overruns at the Indiana plant. The Company responded that there would be no limit on the amount of funds Kentucky Power could be required to provide if this arrangement was approved (T.E. I, 84).

Finally, the Commission asked the Company to explain why it should approve a proposed expenditure of \$187 million (or more) on a project to obtain power only for the projected

^{3/}Appalachian Power Company, Ohio Power Company, Michigan Power Company, and Indiana & Michigan Power Company

deficit years of 1981-84, when Kentucky Power could simply purchase the same amount of power from its affiliated companies without burdening the ratepayers of Kentucky with ownership in a plant in another state. Kentucky Power responded that it was an "investment" (T.E. I, 60).

Based upon the evidence of record in this proceeding, the Commission makes the following FINDINGS of fact:

1. Kentucky Power Company is a major subsidiary of the AEP system and is interconnected through a high-voltage transmission network with the other operating companies of the AEP system. As such, Kentucky Power is entitled to receive power from its sister companies as the need arises. Conversely, it is obligated to supply any excess power it may generate to these other companies as their own needs require. The record in this proceeding establishes that Kentucky Power has been a "net exporter" of power to its sister companies since the construction of the Company's Big Sandy unit in Kentucky in 1969.

2. The completion of Kentucky Power's new plant in Lewis County, near Carrs, Kentucky, sometime in 1985-86 will once again enable Kentucky Power to supply all of the electric power needs of its customers in Kentucky, as well as create a substantial surplus for sale to other members of the AEP system.

3. Any shortfall in generating capacity for Kentucky customers that the Company might experience sometime in the early 1980's, could be remedied by simply purchasing additional power from other members of the AEP system as the Company did from 1966 to 1969. After completion of the new Lewis County plant in the late 1980's Kentucky Power would, of course, have no shortfall in power for its Kentucky customers.

4. Kentucky Power stated in its application to this Commission and on cross-examination at the hearing that

the proceeds of its proposed \$100 million borrowing would be used to finance its purchase of the interest in the I & M Rockport plant (R.4, T.E. I, 77-78).

5. The \$187 million price for the purchase of the 15% interest in I & M's Rockport plant would have to be immediately borne by Kentucky Power's ratepayers.

For these reasons, the Commission finds that it would not be in the public interest for the ratepayers in Kentucky to bear the burden of higher rates to finance an interest in a new generating plant in another state when it has been shown from the record in this case that Kentucky Power Company can obtain additional power it may need in the early to mid 1980's by simply purchasing such power from the AEP system until the completion of the new Lewis County plant in Kentucky in the mid 1980's. Thus, Kentucky Power's proposed participation in the I & M Rockport plant would not serve the public convenience and necessity as required under KRS 278.020(1), and should therefore be denied. Since the stated purpose of the \$100 million borrowing is to finance this 15% interest in a new plant, approval of this borrowing should likewise be denied.

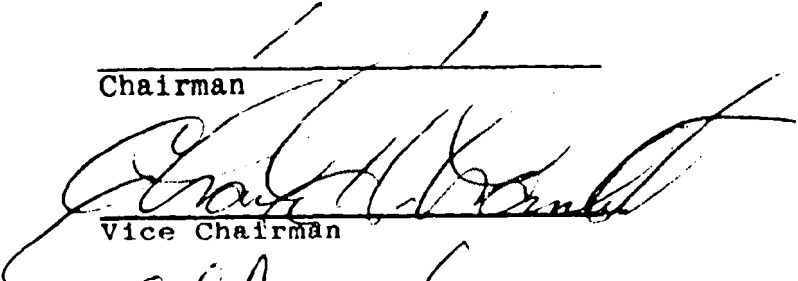
It is therefore ORDERED that Kentucky Power Company's proposal to borrow \$100 million for the purpose of purchasing a 15% interest in the Indiana & Michigan Power Company's Rockport plant be, and it hereby is, denied without prejudice.

It is FURTHER ORDERED that Kentucky Power's "Motion to Amend" its original application filed on October 24, 1980, (and opposed by the Attorney General on November 3, 1980) be, and it hereby is, denied. If Kentucky Power Company believes it can offer additional evidence in meeting its burden of proof that approval of this project would serve

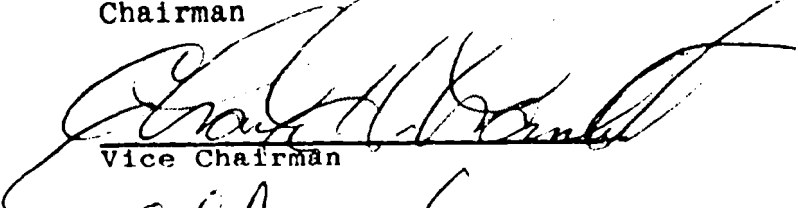
the public convenience and necessity, it retains the full right to do so under the provisions of KRS 278.020.

Done this 4th day of February, 1981, at Frankfort, Kentucky.

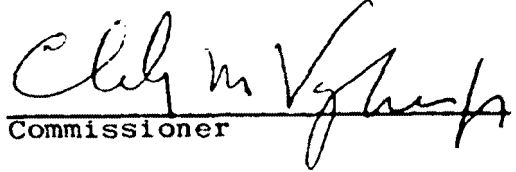
ENERGY REGULATORY COMMISSION



Chairman



Vice Chairman



Commissioner

ATTEST:

Secretary