

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. 98-624
POWER COMPANY d/b/a AMERICAN ELECTRIC	)	
POWER AS BILLED FROM JANUARY 1, 1998	)	
TO JUNE 30, 1998	)	

O R D E R

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power"), d/b/a American Electric Power, environmental surcharge application and established a surcharge mechanism.<sup>1</sup> Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). The Commission hereby initiates the six-month review of Kentucky Power's environmental surcharge as billed from January 1, 1998 to June 30, 1998.<sup>2</sup>

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<sup>1</sup> Case No. 96-489, 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, final Order dated May 27, 1997.

<sup>2</sup> Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from January 1998 through June 1998 are based on costs incurred from November 1997 through April 1998.

In anticipation that those parties to Kentucky Power's last six-month review will desire to participate in this proceeding, the Attorney General's Office ("AG") and the Kentucky Industrial Utility Customers ("KIUC") will be deemed parties to this proceeding.

IT IS THEREFORE 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 January 1, 1998 through June 30, 1998.

3. Kentucky Power shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, Kentucky Power shall forward a duplicate of the notice and request to the Commission.

4. Kentucky Power shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the review period.

5. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 8 copies to the Commission.

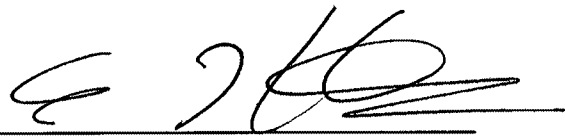
6. The AG and KIUC are granted full intervention in this proceeding.

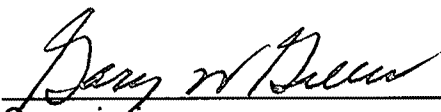
7. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 21st day of December, 1998.

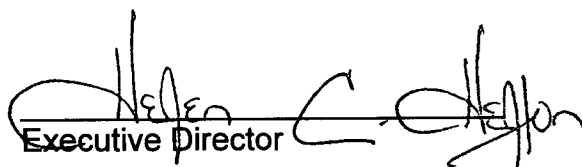
PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 98-624 DATED  
DECEMBER 21, 1998

Kentucky Power shall file its prepared direct testimony, responses  
to the information request in Appendix B, and responses to  
Intervenors' initial requests for information no later than ..... 01/12/99

All requests for information to Kentucky Power  
shall be filed no later than..... 01/26/99

Kentucky Power shall file responses to additional requests  
for information no later than..... 02/09/99

Intervenor testimony, if any, in verified prepared form shall be  
filed no later than ..... 02/23/99

All requests for information to Intervenors shall be filed  
no later than..... 03/09/99

Intervenors shall file responses to requests for information  
no later than..... 03/23/99

Last day for Kentucky Power to publish notice of hearing date ..... 03/23/99

Public Hearing is to begin at 9:00 a.m., Eastern Standard  
Time, in Hearing Room 1 of the Commission's offices at  
730 Schenkel Lane, Frankfort, Kentucky, for the purpose  
of cross-examination of witnesses of Kentucky Power  
and Intervenors..... 03/30/99

Briefs, if any, shall be filed by ..... 04/27/99

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 98-624 DATED DECEMBER 21, 1998 INITIAL INFORMATION REQUEST

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of November 1997 through June 1998. Use ES Form 1.0 as a model for this summary. The expense months of May and June 1998 have been included in order to show the over- and under-recovery adjustments for the months included for the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for this six-month review. Include all supporting calculations and documentation for such an additional over- and under-recovery.

2. Refer to ES Form 3.10, Costs Associated with Big Sandy, expense month of April 1998.

a. Explain in detail why the Monthly Depreciation Expense, which in all other months in the review period was recorded at \$4,100, increased in April to \$36,692.

b. Explain in detail why the Monthly Property Taxes, which in all other months in the review period were recorded at \$72, increased in April to \$678.

3. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11:

a. Explain why Disposal Cost, Account No. 501.91, fluctuated so much during the expense months of February through April 1998.

b. Explain why Lime Cost, Account No. 502.9, experienced a significant decrease in March 1998.

c. Explain why Scrubber Maintenance Cost, Account No. 512.8, generally decreased between November 1997 and April 1998.

d. Describe the factors that caused Kentucky Power's Capacity Deficit to drop from 89,500 KW in January 1998 to 0 in February 1998.

e. Describe the factors that caused Kentucky Power's Capacity Deficit to increase from 0 in March 1998 to 19,800 KW in April 1998.

4. In Case No. 96-489, the Commission ordered that Kentucky Power's weighted average cost of capital would remain fixed during each six-month period, and would be reviewed and re-established during each six-month review case. In accordance with this finding, provide the following information as of June 30, 1998:

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

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

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

5. Refer to ES Form 3.12, Emissions Allowance Inventory.

a. Describe the transaction which resulted in the "Off System" purchase of 4,109 allowances by Kentucky Power in April 1998. Explain how the average dollar value of \$109.25 was determined.

b. Where any of the 4,109 allowances sold as part of the Off System Sale of 1,765 allowances, which was also reported in April 1998? If yes, indicate how many allowances were included.

c. In November 1997, Kentucky Power reported an Intercompany Purchase of 663 allowances for \$332, for an average price of \$.50 per allowance. Describe the circumstances surrounding this transaction and explain why the purchase price was so low.

6. Refer to ES Form 3.2, Costs Associated with Rockport – Current Period, for the expense month of November 1997. Explain why the Monthly Indiana Air Emissions Fee was a negative \$15,640.

7. Refer to ES Form 3.3, the Schedule of Monthly Revenues, for the entire review period.

a. Provide a list showing the Federal Energy Regulatory Commission ("FERC") account numbers and titles which make up the Total Revenues shown in any expense month.

b. Provide a list showing FERC account numbers and titles for any operational revenues that are not included in the environmental surcharge calculations. Explain why each listed account number is not included in the calculations, and how this exclusion is consistent with the Orders the Commission has issued concerning Kentucky Power's environmental surcharge mechanism.

8. During the expense months covered by this review:

a. Identify the types of power sales that are classified as either "FERC Wholesale," "Associated Utilities," and "Non-Associated Utilities."

b. For each type of power sale identified, describe how the sale is accomplished. In other words, does Kentucky Power directly make the sale or is the power sold to an affiliated company or third party, which in turn makes the actual sale?

9. On August 25, 1998, Kentucky Power notified the Commission Staff that adjustments were needed in its environmental surcharge mechanism due to Kentucky Power's entry into the power brokering market.

a. Describe the type of transaction involved in a power brokering sale.

b. Explain the involvement of Kentucky Power's or other American Electric Power Company's generating assets in these power brokering transactions.

c. Explain the accounting treatment established by FERC for power brokering transactions. Include copies of any correspondence or other documentation addressing the accounting treatment. Identify the account number(s) used by Kentucky Power to record power brokering transactions.

d. Describe the impact the power brokering sales have had on Kentucky Power's environmental surcharge mechanism. Prepare a schedule covering the months included in the review period that shows the monthly effect power brokering transactions have had on the surcharge mechanism. Also, prepare a similar schedule covering any other months that have been impacted by power brokering transactions.

e. Identify the adjustments to the surcharge mechanism that Kentucky Power believes are necessary due to its entry into the power brokering market. Explain why the adjustments are necessary and reasonable. Include examples of any ES Form revisions needed to reflect the proposed adjustments.



f. When did Kentucky Power first become aware that the power brokering sales transactions had a material impact on the level of revenue recovered under the environmental surcharge?