

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	)	
POWER COMPANY D/B/A AMERICAN ELECTRIC	)	CASE NO.
POWER FOR THE SIX-MONTH BILLING PERIODS	)	2000-107
ENDING DECEMBER 31, 1998 AND	)	
DECEMBER 31, 1999, AND FOR THE TWO-YEAR	)	
BILLING PERIOD ENDING JUNE 30, 1999	)	

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). At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. The

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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.

Commission has determined that it will be administratively efficient and reasonable to review the pending six-month periods and the first two-year period in the same case. Therefore, the Commission hereby initiates the six-month reviews of the surcharge as billed from July 1, 1998 to December 31, 1998 and from July 1, 1999 to December 31, 1999, and the two-year review of the surcharge as billed from July 1, 1997 to June 30, 1999.<sup>2</sup>

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, Inc. ("KIUC") will be deemed parties to this proceeding. Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

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 (a) July 1, 1998 through December 31, 1998; (b) July 1, 1999 through December 31, 1999; and (c) July 1, 1997

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<sup>2</sup> Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 1998 through December 1998 are based on costs incurred from May 1998 through October 1998; amounts billed from July 1999 through December 1999 are based on costs incurred from May 1999 through October 1999; and amounts billed from July 1997 through June 1999 are based on costs incurred from May 1997 through April 1999.

through June 30, 1999. At the public hearing there shall be no opening statements or summaries of testimony.

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 three periods under review.

5. Any party filing testimony shall file an original and 12 copies. The original and at least three copies of the testimony shall be filed as follows:

- a. Together with cover letter listing each person presenting testimony.
- b. Bound in 3-ring binders or with any other fastener which readily opens and closes to facilitate easy copying.
- c. Each witness's testimony should be tabbed.
- d. Every exhibit to each witness's testimony should be appropriately marked.

6. 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 12 copies to the Commission.

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

8. Within 10 days of the date of this Order, Kentucky Power shall provide the AG and KIUC each a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

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

10. The case records of Case Nos. 98-106<sup>3</sup> and 98-624<sup>4</sup> shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 14<sup>th</sup> day of March, 2000.

By the Commission

ATTEST:

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Executive Director

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<sup>3</sup> Case No. 98-106, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company d/b/a American Electric Power as Billed from July 1, 1997 to December 31, 1997.

<sup>4</sup> Case No. 98-624, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company d/b/a American Electric Power as Billed from January 1, 1998 to June 30, 1998.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2000-107 DATED MARCH 14, 2000

Kentucky Power shall file its prepared direct testimony  
and responses to the information request in  
Appendix B no later than ..... 04/13/00

All additional requests for information to Kentucky Power  
shall be filed no later than ..... 04/27/00

Kentucky Power shall file responses to additional requests for  
information no later than..... 05/11/00

Intervenor testimony, if any, in verified prepared form  
shall be filed no later than ..... 05/31/00

All requests for information to Intervenors shall be  
filed no later than..... 06/14/00

Intervenors shall file responses to requests for  
information no later than..... 06/30/00

Last day for Kentucky Power to publish notice of hearing date ..... 07/11/00

Public Hearing is to begin at 9:00 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 ..... 07/18/00

Briefs, if any, shall be filed by ..... 08/15/00

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-107 DATED MARCH 14, 2000

#### INITIAL INFORMATION REQUEST

##### Billing Period July 1, 1998 through December 31, 1998

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of May 1998 through December 1998. Use ES Form 1.0 as a model for this summary. The expense months of November and December 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- or under-recovery.

2. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. If, during the May through October expense months, Kentucky Power reported a net gain from allowance sales in compliance with the Interim Allowance Agreement ("IAA"), provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

3. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11 for the expense months of May through October:

a. Explain the fluctuations in the Disposal Cost, Account No. 501.91, during the expense months of the review period.

b. Explain the fluctuations in the Lime Cost, Account No. 502.9, during the expense months of July through October.

c. Explain the fluctuations in the Scrubber Maintenance Cost, Account No. 512.8, during the expense months of July through October.

d. Explain the change in the Kentucky Power Capacity Deficit noted in July and August.

4. Refer to ES Form 3.12, Emission Allowance Inventory, additional section. During the expense months of May through October, the average price paid for allowances classified as P & E Transfers In ranged between \$123.32 to \$190.41 per allowance.

a. Describe the types of transactions reported in the P & E Transfers In category.

b. Explain why Kentucky Power acquired 17,108 allowances during the May through October period that were classified as P & E Transfers In.

c. Explain how the price per allowance for this category of emissions allowance is determined.

5. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of May through October. Explain how the price per allowance was determined for Off-system Sales, as shown for each expense month. Indicate if any Off-system Sale of allowances was impacted or governed by the terms of the IAA.

6. Refer to ES Form 3.2, Costs Associated with Rockport, monthly Indiana air emissions fee, for the May through October expense months. Explain why the emissions fee increased in the expense month of July.

7. Provide the following information concerning Kentucky Power's debt and common equity balances as of December 31, 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.

Billing Period July 1, 1999 through December 31, 1999

8. Prepare a summary schedule showing the calculation of  $E(m)$  and the surcharge factor for the expense months of May 1999 through December 1999. Use ES Form 1.0 as a model for this summary. The expense months of November and December 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- or under-recovery.

9. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the IAA in each month of the May through October expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.



10. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11 for the expense months of May through October:

a. Explain the fluctuations in the Disposal Cost, Account No. 501.91, during the expense months of the review period.

b. Explain the fluctuations in the Lime Cost, Account No. 502.9, during the expense months of the review period.

c. Explain the fluctuations in the Scrubber Maintenance Cost, Account No. 512.8, during the expense months of the review period.

d. Explain the change in the Kentucky Power Capacity Deficit noted in August.

11. Refer to ES Form 3.12, Emission Allowance Inventory, additional section. During the expense months of May through October, Kentucky Power acquired 20,879 allowances classified as Other.

a. Describe the types of transactions reported in the Other category.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired ranged from \$184.46 to \$218.82. Explain how the price per allowance for this category of emissions allowance is determined.

12. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of May through October. Explain how the price per allowance was determined for Off-system Sales, as shown for each expense month. Indicate if any Off-system Sale of allowances was impacted or governed by the terms of the IAA.

13. 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 December 31, 1999:

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.

Billing Period July 1, 1997 through June 30, 1999

14. Prepare a summary schedule showing the calculation of  $E(m)$  and the surcharge factor for the expense months of November 1998 through June 1999. Use ES Form 1.0 as a model for this summary. The expense months of May and June 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- or under-recovery.

15. Prepare a summary schedule showing the calculation of  $E(m)$  and the surcharge factor for the expense months of May 1997 through June 1999. Use ES Form 1.0 as a model for this summary. The expense months of May and June have been included in order to show any over- and under-recovery adjustments for the

months included for the billing period under review. If needed, include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for this two-year review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

16. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the IAA in each month of the November 1998 through April 1999 expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

17. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11, for the expense months of November 1998 through April 1999:

a. Explain the fluctuations in the Disposal Cost, Account No. 501.91, during the expense months of November 1998 through April 1999.

b. Explain the fluctuations in the Lime Cost, Account No. 502.9, during the expense months of November and December 1998 and April 1999.

c. Explain the fluctuations in the Scrubber Maintenance Cost, Account No. 512.8, during the expense months of December 1998 and April 1999.

d. Explain the change in the Kentucky Power Capacity Deficit noted in February and April 1999.

18. Refer to ES Form 3.12, Emission Allowance Inventory, additional section. During the expense months of November 1998 through April 1999, Kentucky Power

acquired 3,971 allowances classified as P & E Transfers In and 17,285 allowances classified as Other.

a. Describe the types of transactions reported in the P & E Transfers In and Other categories.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired for the P & E Transfers In category was \$123.41. Explain how the price per allowance for this category of emissions allowance is determined.

d. The average price per allowance acquired for the Other category ranged from \$184.48 to \$674.83. Explain how the price per allowance for this category of emissions allowance is determined.

19. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of November 1998 through April 1999. Explain how the price per allowance was determined for P & E Transfers Out, Intercompany Sales, and Off-system Sales, as shown for each expense month. Indicate if any of these withdrawals of allowances was impacted or governed by the terms of the IAA.

20. Refer to ES Form 3.2, Costs Associated with Rockport, monthly depreciation expense. Explain why no depreciation expense was reported for the expense month of November 1998.

21. 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, 1999:

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.

22. In Case No. 96-489, the Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be 11.5 percent, and would be reviewed for reasonableness during the two-year review case. In accordance with this finding:

a. Does Kentucky Power believe that the 11.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.

b. If no to part (a), what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis supporting Kentucky Power's position.

23. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per KWH approach. Taking this into consideration, explain how the

surcharge amount should be incorporated into Kentucky Power's base rates. Include any analysis that Kentucky Power believes supports its position.

24. When determining the monthly amount to be recovered through the surcharge, Kentucky Power's environmental surcharge mechanism compares a base period revenue requirement with a current period revenue requirement.

a. Would Kentucky Power agree that, on a going-forward basis, the base period revenue requirement calculation should be modified to reflect the incorporation of a surcharge amount into existing base rates? Explain the response.

b. Other than recognizing that a surcharge amount has been incorporated into existing base rates, does Kentucky Power believe any other modification to the surcharge mechanism or monthly reporting forms is necessary? If yes, explain each modification and the reason(s) it is necessary.