

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

MOTION OF KENTUCKY POWER COMPANY	)	
D/B/A AMERICAN ELECTRIC POWER FOR	)	
APPROVAL OF ADDITIONAL OPERATING	)	CASE NO.
EXPENSES ASSOCIATED WITH ITS	)	2004-00081
ENVIRONMENTAL COMPLIANCE PLAN	)	

O R D E R

On March 9, 2004, Kentucky Power Company d/b/a American Electric Power (“Kentucky Power”) filed a motion requesting the Commission to approve and allow surcharge recovery of all operating and maintenance (“O&M”) expenses associated with the capital projects previously approved in Case No. 2002-00169,<sup>1</sup> and included in Kentucky Power’s environmental compliance plan.<sup>2</sup> In Case No. 2002-00169, the Commission approved Kentucky Power’s recovery of four specific types of O&M expenses through its surcharge<sup>3</sup> and it now seeks recovery of additional O&M expenses

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<sup>1</sup> Case No. 2002-00169, The Application of Kentucky Power Company d/b/a American Electric Power for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Surcharge Cost Recovery Surcharge Tariff, final Order dated March 31, 2003. The projects associated with the approved amended compliance plan primarily dealt with controlling nitrogen oxide (“NOx”) emissions at the Big Sandy generating units.

<sup>2</sup> Kentucky Power filed a supplemental motion on March 26, 2004, setting forth more details and addressing the issues discussed at a March 19, 2004 informal conference.

<sup>3</sup> The four O&M expense types were the variable costs for on-going cladding at the Big Sandy Unit 1 over-fire air project, the urea consumption and catalyst replacement at Big Sandy Unit 2, and the cost of NOx emission allowances consumed.

associated with NOx projects included in its compliance plan. These additional O&M expenses were not possible to identify during the processing of Case No. 2002-00169.

Kentucky Power stated that, based on its reading of KRS 278.183, it believed that the Commission would review and approve new categories of O&M expenses as they are incurred, so long as they are associated with projects included in an approved compliance plan, subject to further review during the six-month surcharge review proceedings. Consequently, Kentucky Power included a new category of O&M expense in its January 2004 Environmental Surcharge Report associated with the NOx projects. Kentucky Power was notified by letter on February 25, 2004 that it could not recover these new O&M expenses through the surcharge at this time, due to the fact these O&M expenses had not previously been approved by the Commission for recovery in the March 31, 2003 Order in Case No. 2002-00169. Kentucky Power subsequently resubmitted its January 2004 Environmental Surcharge Report with the new O&M expense category removed.<sup>4</sup>

On March 19, 2004, an informal conference was held to discuss Kentucky Power's motion and the types of additional O&M expenses proposed to be recovered through its environmental surcharge. The Attorney General of the Commonwealth of

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<sup>4</sup> Kentucky Power submitted its February 2004 Environmental Surcharge Report including the new O&M expense category. Kentucky Power was notified by letter on March 25, 2004 that the new O&M expense category could not be recovered through the surcharge at this time. However, the March 25, 2004 letter did note that this case was pending before the Commission. Kentucky Power subsequently resubmitted its February 2004 Environmental Surcharge Report with the new O&M expense category removed.

Kentucky, by and through his Office of Rate Intervention (“AG”), and the Kentucky Industrial Utility Customers, Inc. (“KIUC”) attended the informal conference.<sup>5</sup>

Kentucky Power explained that, in conjunction with its preparations for the 2004 ozone season, it had incurred or would be incurring additional maintenance expense that would be required to operate the NOx control equipment properly. During an outage in March 2004, Kentucky Power incurred \$939,000 in additional maintenance expenses related to the Big Sandy Unit 2 NOx control equipment,<sup>6</sup> and it anticipates incurring \$28,000 in additional maintenance expense related to an April 2004 outage at Big Sandy Unit 1.<sup>7</sup>

Kentucky Power also indicated that it had identified additional routine O&M expenses associated with the NOx control equipment since the Commission’s decision in Case No. 2002-00169. Kentucky Power stated that these O&M expenses could include items such as the cost of an additional unit operator during the ozone season and emission testing required under its permits.<sup>8</sup>

Kentucky Power proposed that it be allowed to add two additional O&M categories to its monthly environmental surcharge report to include the additional O&M expenses that have now been identified but not previously included in the O&M

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<sup>5</sup> The AG and KIUC were intervening parties in Case No. 2002-00169.

<sup>6</sup> March 26, 2004 Motion to Approve Additional O&M Categories for Monthly Environmental Surcharge Report (“March 26, 2004 Motion”) at 3. Kentucky Power provided a detailed breakdown of the incurred expenses between materials and contract labor.

<sup>7</sup> Id. at 4. Kentucky Power separated the estimated maintenance expense between materials and contract labor.

expenses approved in Case No. 2002-00169. The additional categories, “Equipment-Associated Operating Expenses”<sup>9</sup> and “Equipment-Associated Maintenance Expenses,”<sup>10</sup> would be added to ES Form 3.13. Kentucky Power proposed to include with its monthly surcharge report a narrative description of the O&M work that was included in the new categories. Because the March 2004 outage O&M expenses were significantly large, Kentucky Power proposed that it be allowed to spread the March O&M expenses over three months instead of recovering the total amount in one month. Lastly, Kentucky Power proposed that any O&M expense included in the monthly reports would be examined during the six-month and two-year review proceedings and allowed or disallowed as provided in KRS 278.183.

KIUC sought and was granted intervention in this proceeding on April 1, 2004. On April 9, 2004, the AG filed a motion pursuant to KRS 367.150(8) for full intervention in this proceeding. The Commission will grant the AG’s motion to intervene as part of this Order.

On April 1, 2004, the Commission ordered that any comments on Kentucky Power’s motion or a request for a hearing should be filed by April 6, 2004. Neither comments nor a hearing request was filed.

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<sup>8</sup> Id. at 3 and 5. Kentucky Power stated that it has not determined whether the additional operator will be needed. Kentucky Power expects that the emission testing would be performed annually and would cost between \$5,000 and \$10,000 per test.

<sup>9</sup> The operating category would be for expense items Kentucky Power identified as additional routine O&M expenses associated with the NOx control equipment since the Commission’s decision in Case No. 2002-00169, such as the costs of an additional operator during the ozone season and the emission testing.

<sup>10</sup> The maintenance category would be for the additional maintenance expense that would be required in order for the NOx control equipment to operate properly, usually incurred during scheduled outages, and necessary repairs during non-outage periods.

The Commission has examined the information provided by Kentucky Power concerning the additional O&M expenses associated with the NOx control equipment installed at the Big Sandy generating units and its proposal concerning the reporting of the expenses. The Commission finds that the existing environmental compliance plan should be amended to provide for the recovery of the additional O&M expenses. The expenses described by Kentucky Power are associated with the operation and maintenance of the NOx control projects that were approved in Case No. 2002-00169 and included in Kentucky Power's amended environmental compliance plan. As such, those O&M expenses should be eligible for inclusion in Kentucky Power's monthly environmental surcharge report. However, as Kentucky Power acknowledges, the reasonableness of those expenses cannot be determined until they are reviewed during subsequent six-month and two-year surcharge review proceedings.

The Commission agrees with the modifications proposed to ES Form 3.13 as outlined by Kentucky Power in its March 26, 2004 Motion.<sup>11</sup> The Commission further agrees with Kentucky Power's proposal to provide a narrative description of the additional O&M expenses included in the monthly environmental surcharge report. The narrative should contain the information in a manner similar to the O&M expense descriptions contained in Kentucky Power's March 26, 2004 Motion.<sup>12</sup> In addition, if Kentucky Power does employ an additional operator of the NOx control equipment during the ozone season, it should include this information as a separate disclosure in the supplemental expense narrative it provides for the additional O&M expense.

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<sup>11</sup> March 26, 2004 Motion at 5.

<sup>12</sup> Id. at 3.

Concerning Kentucky Power's proposal to spread the March 2004 outage O&M expenses over three months, the Commission finds this approach is reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's proposal to amend its environmental surcharge compliance plan to include additional O&M expenses associated with its approved NOx control projects is approved.

2. Kentucky Power shall reflect the additional O&M expenses in its monthly environmental surcharge reports submitted after the date of this Order, in the manner described herein.

3. Within 20 days of the date of this Order, Kentucky Power shall file a revised environmental surcharge tariff to reflect the additional O&M expenses approved for inclusion in the environmental surcharge as described in this Order.

4. The AG's motion to intervene in this proceeding is granted, and he is hereby made a party to this proceeding.

Done at Frankfort, Kentucky, this 16<sup>th</sup> day of April, 2004.

By the Commission

ATTEST:

  
Executive Director