COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY POWER COMPANY FROM NOVEMBER 1, 2007 THROUGH APRIL 30, 2008	)))))	CASE NO. 2008-00283

ORDER

Pursuant to 807 KAR 5:056, the Commission, on August 22, 2008, established this case to review and evaluate the operation of the fuel adjustment clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the 6-month period ending April 30, 2008. In its Order, the Commission invited any party wishing to file testimony in this proceeding to petition the Commission for a procedural schedule. On September 12, 2008, Kentucky Power petitioned the Commission for an Order establishing a procedural schedule and filed the testimony of Errol K. Wagner. Mr. Wagner's testimony addresses the need to recover through Kentucky Power's FAC the amounts recorded in account numbers 4470207 and 4470208 from November 1, 2007 through April 30, 2008 that were omitted from Kentucky Power's FAC calculations for those months.

In Kentucky Power's most recent FAC review, the Commission found that charges and credits related to marginal transmission line losses that Kentucky Power recorded in Accounts 4470207 and 4470208 beginning June 1, 2007 are for the same types of costs included in Kentucky Power's FAC calculations prior to

June 1, 2007.[1] The Commission authorized Kentucky Power to recover the charges and credits related to marginal transmission line losses recorded in those accounts during the review period for that case, May 1, 2007 through October 31, 2007. Kentucky Power was authorized to recover the previously omitted costs in 5 equal monthly amounts starting with the first monthly FAC filing following the issuance of the Order.

The Commission also found in its Order of June 12, 2008 that charges and credits recorded in Accounts 4470207 and 4470208, which related to marginal transmission line losses on transactions occurring subsequent to October 31, 2007, were outside the period under review in that case and should be addressed in Kentucky Power's next 6-month FAC review.

Kentucky Power, therefore, now requests Commission approval to collect approximately $5.9 million in costs associated with marginal transmission line losses experienced during the 6-month period under review in this case. At the October 7, 2008 hearing in this matter, Kentucky Power confirmed that, after Commission approval and its recovery of the charges and credits related to marginal transmission line losses recorded in Accounts 4470207 and 4470208 during the 6-month review period ending April 30, 2008, its recovery of all previously unrecovered transmission line loss-related

[1] Case No. 2007-00522, An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company From May 1, 2007 Through October 31, 2007 (Ky. PSC June 12, 2008).

costs resulting from the change in PJM's[2] methodology of determining such losses will be completed.[3]

Transmission Line Loss Methodology

Effective June 1, 2007, the Federal Energy Regulatory Commission ("FERC") ordered that a new locational marginal loss methodology for determining transmission line losses replace PJM's existing average loss method of accounting for transmission line losses. FERC's stated goal in ordering this change was to achieve a more efficient dispatch of generation resources across the PJM footprint.

Prior to June 1, 2007, PJM billed transmission users for the generation necessary to serve load including transmission line losses, which effectively added the generation necessary to cover average line losses to the total load. Kentucky Power was therefore responsible for generation costs which included the fuel costs incurred to fulfill the load requirement and the fuel costs associated with the average transmission line losses. These costs would be accounted for in either Account 501 - Fuel Costs or Account 555 - Purchased Power.

Since June 1, 2007, marginal line losses have been included in the locational marginal price of wholesale transactions within the PJM footprint and have been settled financially, resulting in Kentucky Power's load obligation and the fuel costs associated with fulfilling its load obligation being reduced. The power that was associated with

[2] PJM is the Pennsylvania, New Jersey, Maryland Interconnection, LLC, a Regional Transmission Organization that extends from the mid-Atlantic states to the Midwest. Kentucky Power, as part of the American Electric Power Company, is a member of PJM.

[3] Hearing Video Transcript, October 7, 2008, 24:25.

transmission line losses prior to June 1, 2007 is still generated, but is now available for sale off-system. The additional off-system sales margins generated are shared among American Electric Power Company East Pool members, including Kentucky Power.

Under the new methodology, marginal transmission line losses are settled financially in the form of charges and credits that appear on the PJM bill. Charges are now recorded in Account 4470207 and credits are recorded in Account 4470208 by Kentucky Power. These charges and credits represent identifiable fuel costs associated with energy purchases, which fall under 807 KAR 5:056, Section 1(3), paragraphs (b) and (d). Kentucky Power states that the charges and credits related to marginal transmission line losses recorded in Accounts 4470207 and 4470208 comport with 807 KAR 5:056 and are the same types of costs that were included in its FAC calculations prior to June 1, 2007.

As part of this review, Kentucky Power submitted certain information, pursuant to Commission Order, concerning its compliance with 807 KAR 5:056. A public hearing was held on October 7, 2008. On October 13, 2008, Kentucky Power filed its response to post-hearing data requests asked for at the hearing. On October 31, 2008, Kentucky Power responded to Commission Staff's supplemental data request.

The Commission has previously established Kentucky Power's base fuel cost at 21.24 mills per kWh.[4] A review of Kentucky Power's monthly fuel clause filings shows that the actual fuel cost incurred for the 6-month period under review ranged from a low

---

[4] Case No. 2006-00507, An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2004 to October 31, 2006 (Ky. PSC July 25, 2007).

of 20.77 mills in March 2008 to a high of 28.43 mills in April 2008, with a 6-month average of 22.75 mills.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. There is no evidence of improper calculation or application of Kentucky Power's FAC charges or improper fuel procurement practices during the period of November 1, 2007 through April 30, 2008.

2. Kentucky Power should be authorized to recover the charges and credits related to marginal transmission line losses that it recorded in Accounts 4470207 and 4470208 during the 6-month period from November 1, 2007 through April 30, 2008. Kentucky Power should recover the previously omitted costs in 6 equal monthly amounts of $981,697 starting with the first monthly FAC filing following the issuance of this Order.

IT IS THEREFORE ORDERED that:

1. The charges and credits billed by Kentucky Power through its FAC for the period November 1, 2007 through April 30, 2008 are approved.

2. Kentucky Power is authorized to recover the charges and credits related to marginal transmission line losses that it recorded in Accounts 4470207 and 4470208 during the 6-month period from November 1, 2007 through April 30, 2008. Kentucky Power shall recover the previously omitted costs in 6 equal monthly amounts of $981,697 starting with the first monthly FAC filing following the issuance of this Order.

Done at Frankfort, Kentucky, this 8th day of January, 2009.

By the Commission

Vice Chairman Gardner Abstains.

ATTEST:

Executive Director

Errol K Wagner
Director of Regulatory Services
American Electric Power
101A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

Errol K Wagner
Director Regulatory Services
American Electric Power
101A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602