

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.
POWER COMPANY FOR THE SIX-MONTH	)	2009-00038
BILLING PERIODS ENDING DECEMBER 31, 2007;	)	
JUNE 30, 2008; AND DECEMBER 31, 2008	)	

O R D E R

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky 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 that are recoverable pursuant to KRS 278.183(1). The Commission has determined that it will be administratively efficient and reasonable to review the pending three six-month periods in the same case. Therefore, the Commission hereby initiates

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<sup>1</sup> Case No. 1996-00489, 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.

the six-month reviews of the surcharge as billed from July 1, 2007 to December 31, 2007; January 1, 2008 to June 30, 2008; and July 1, 2008 to December 31, 2008.<sup>2</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky Power is to file prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the time periods under review. In addition, Kentucky Power is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. 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.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its

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<sup>2</sup> Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2007 through December 2007 are based on costs incurred from May 2007 through October 2007; amounts billed from January 2008 through June 2008 are based on costs incurred from November 2007 through April 2008; and amounts billed from July 2008 through December 2008 are based on costs incurred from May 2008 through October 2008.

original compliance plan and surcharge mechanism.<sup>3</sup> As a result of previous six-month and two-year surcharge reviews, the environmental surcharge provides recovery of the incremental costs associated with the original and first amendment to the compliance plan as well as the costs associated with the second and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

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, 2007 through December 31, 2007; (b) January 1, 2008 through June 30, 2008; and (c) July 1, 2008

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<sup>3</sup> See 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 Cost Recovery Surcharge Tariff, final Order dated March 31, 2003; Case No. 2004-00081, Motion of Kentucky Power Company d/b/a American Electric Power for Approval of Additional Operating Expenses Associated with Its Environmental Compliance Plan, final Order dated April 16, 2004; Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff, final Order dated September 7, 2005; and Case No. 2006-00307, The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental cost Recovery Surcharge Tariff, final Order dated January 24, 2007.

through December 31, 2008. There shall be no opening statements or summaries of testimony at the public hearing.

3. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the three periods under review.

4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due on or before March 20, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within seven days of the Commission granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

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.

8. The case records of Case Nos. 1996-00489, 2002-00169, 2004-00081, 2005-00068, 2005-00341, and 2006-00307 shall be incorporated by reference into the record of this case.

9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

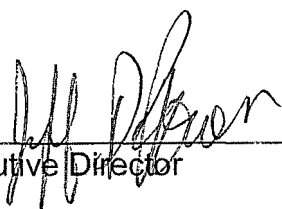
10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 12<sup>th</sup> day of February, 2009.

By the Commission

Vice Chairman Gardner Abstains.

ATTEST:

  
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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2009-00038 DATED FEBRUARY 12, 2009

Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 03/20/09

An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 03/27/09

All additional requests for information to Kentucky Power shall be filed no later than..... 04/03/09

Kentucky Power shall file responses to additional requests for information no later than ..... 04/17/09

Intervenor testimony, if any, in verified prepared form shall be filed no later than..... 05/01/09

All requests for information to Intervenors shall be filed no later than ..... 05/15/09

Intervenors shall file responses to requests for information no later than ..... 05/29/09

Public Hearing is to begin at 9:00 a.m., Eastern Standard 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 ..... To be scheduled

Briefs, if any, shall be filed by ..... To be scheduled

## APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2009-00038 DATED FEBRUARY 12, 2009

### FIRST DATA REQUEST OF COMMISSION STAFF TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period under review. Use ES Form 1.00 as a model for this summary. Include the expense months for the two expense months subsequent to the billing period 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 each six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide ("SO<sub>2</sub>") and nitrogen oxide ("NO<sub>x</sub>") emission allowance sales are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. Refer to ES Form 3.13, the Operation and Maintenance Expense summary, Line 10, Equipment – Associated Maintenance Expenses. Explain the primary reason(s) for the fluctuations in these maintenance expenses during the six expense months that make up each of the three review periods.

Billing Period from July 1, 2007 through December 31, 2007

4. Refer to ES Form 3.11, SO<sub>2</sub> Emission Allowance Inventory, for the December 2007 expense month.

a. Describe the type of transaction reported as "Withdrawals – Intercompany Sales."

b. Explain how the sales price per allowance was determined for these sales.

5. Refer to ES Form 3.12, ECR and NO<sub>x</sub> Emission Allowance Inventory, for July and October, 2007 expense months. Explain why Kentucky Power reported receiving "EPA Allowances" in these expense months.

6. Refer to ES Form 3.13, the Operation and Maintenance Expense Summary, Line 9, Equipment – Associated Operating Expenses. Explain the primary reason(s) for the fluctuations in the operating expenses for each expense month in this review period.

Billing Period from January 1, 2008 through June 30, 2008

7. Refer to ES Form 3.12, ECR and NO<sub>x</sub> Emission Allowance Inventory, for May, 2008 expense months. Explain why Kentucky Power reported receiving "EPA Allowances" in this expense month.

Billing Period from July 1, 2008 through December 31, 2008

8. Refer to ES Form 3.11, SO<sub>2</sub> Emission Allowance Inventory, for the November 2008 expense month.

a. Describe the type of transaction reported as "Addition – Other."



b. Explain how the sales price per allowance was determined for this amount.

9. Refer to ES Form 3.13, the Operation and Maintenance Expense Summary, Line 9, Equipment – Associated Operating Expenses. Explain the primary reason(s) for the fluctuations in the operating expenses for each expense month in this review period.

10. Refer to ES Form 3.14, Page 5 of 11, the Current Period Revenue Requirement, Ohio Power Company – Gavin Plant (Units 1 & 2), Line 11. Explain the primary reason(s) for the fluctuations in the lease expense for the December 2008 month compared to the prior months in this review period.

11. Provide the following information as of October 31, 2008:

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

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

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

d. Determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

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