

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE)
FUEL ADJUSTMENT CLAUSE OF KENTUCKY) CASE NO. 2010-00490
POWER COMPANY FROM NOVEMBER 1, 2008)
THROUGH OCTOBER 31, 2010)

O R D E R

Pursuant to 807 KAR 5:056, the Commission, on January 26, 2011, established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the period from November 1, 2008 through October 31, 2010, and to determine the amount of fuel costs that should be transferred (rolled-in) to its base rates to re-establish its FAC factor.

In establishing this review, the Commission ordered Kentucky Power to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. Kentucky Power submitted this information on February 14, 2011 and filed responses to a second data request on March 7, 2011.

On March 18, 2011, Kentucky Power filed its proofs of publication of the scheduled March 22, 2011 hearing. That notice indicated that notice of the public hearing was timely published in the service territory of Kentucky Power except the service territory in Knott County, Kentucky. The public hearing was held on March 22, 2011.

On April 1, 2011, Kentucky Power filed a supplement to testimony given at the hearing and on April 5 filed post-hearing data responses to questions asked at the hearing.

On April 6, 2011, the Commission issued an Order that scheduled an additional public hearing on May 3, 2011 to provide an opportunity for customers in Kentucky Power's Knott County service territory to provide comments on the fuel adjustment clause issues in this case. The Order further stated that if no interested customer notified the Commission in writing of their intent to attend the hearing by April 29, 2011, the hearing would be cancelled. No interested customer notified the Commission in writing of their intent to attend the May 3, 2011 hearing, and the hearing was cancelled.

On April 13, 2011, Kentucky Power filed responses to a third data request. There are no intervenors in this case.

Kentucky Power offered that the month of September 2010 was representative of the current fuel cost for the purpose of arriving at the base fuel cost and the kWh sales components of its FAC. However, it proposed to the Commission that its base fuel cost not be changed from the current 28.40 mills per kWh. Kentucky Power's fuel cost for the month of September 2010 was 28.77 mills per kWh, for a difference of 0.37 mills per kWh from the current base fuel cost. Kentucky Power states that the difference is not material and the current base fuel cost of 28.40 mills per kWh should remain unchanged.

In establishing the appropriate level of base fuel cost to be included in Kentucky Power's rates, the Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by Kentucky Power. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of September 2010 is a reasonably representative generation month of Kentucky Power. The analysis of Kentucky Power's monthly fuel clause filings showed that the actual fuel cost incurred for the 2-year review

period ranged from a low of 23.34 mills per kWh in July 2010 to a high of 33.16 mills per kWh in November 2008, with an average cost for the period of 26.65 mills per kWh. Based upon this review, the Commission finds that Kentucky Power has complied with 807 KAR 5:056 and that the proposed base period fuel cost of 28.40 mills per kWh should remain in effect.

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

1. During the period under review, Kentucky Power has complied with the provisions of 807 KAR 5:056.

2. The test month of September 2010 should be used as Kentucky Power's base period for this review. However, since the cost of fuel for the month of September 2010 was 28.77 mills per kWh, a 0.37 mills per kWh difference from the current base fuel cost of 28.40 mills per kWh, the difference is de minimis and the current base fuel cost of 28.40 mills per kWh should remain unchanged.

3. Kentucky Power's current base period fuel cost of 28.40 mills per kWh is reasonable and should remain in effect.

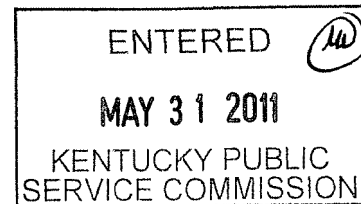
4. The continued use of the base fuel cost of 28.40 mills per kWh requires no transfer to Kentucky Power's base rates.

5. Kentucky Power should continue to use an FAC rate based on a base fuel cost of 28.40 mills per kWh.

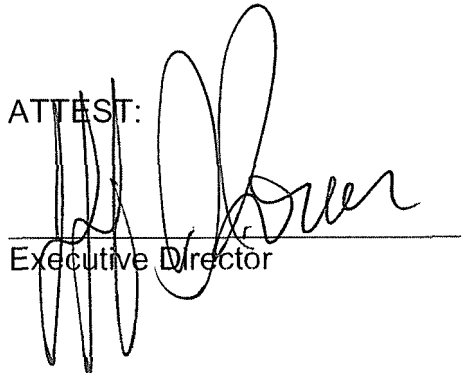
IT IS THEREFORE ORDERED that:

1. The charges and credits applied by Kentucky Power through the FAC for the period from November 1, 2008 through October 31, 2010 are approved.
2. Kentucky Power's continued use of the existing base fuel cost of 28.40 mills per kWh is approved.

By the Commission



ATTEST:



Executive Director

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