

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. 2013-00261 |
| POWER COMPANY FROM NOVEMBER    | ) |                     |
| 1, 2012 THROUGH APRIL 30, 2013 | ) |                     |

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 8, 2013, to review and evaluate the operation of the Fuel Adjustment Clause (“FAC”) of Kentucky Power Company (“Kentucky Power”) for the six-month period ending April 30, 2013. As part of this review, Kentucky Power submitted certain information, pursuant to Commission Order, concerning its compliance with 807 KAR 5:056. The Commission held a public hearing in this matter on October 16, 2013. On October 22, 2013, Kentucky Power filed its response to requests made at the hearing.

Misallocation of PJM Interconnection Charges and Credits

On September 27, 2013, Kentucky Power filed a motion requesting an informal conference (“IC”) to discuss its misallocation of certain charges and credits received from PJM Interconnection, LLC (“PJM”), the regional transmission organization of which it is a member. The IC was held on October 7, 2013. The misallocations made by Kentucky Power occurred during the period July 2011 through June 2013 and affected its FAC, environmental surcharge (“ES”), and off-system sales (“OSS”) mechanism.

The period covered in Kentucky Power's most recent two-year FAC review case was the 24 months ended October 31, 2012. Because that case, Case No. 2012-00550,<sup>1</sup> is closed, Kentucky Power proposes that an adjustment be made to correct the misallocations that were included in its FAC calculations only for the period November 2012 through June 2013. At the October 7, 2013 IC, Kentucky Power stated its understanding that once a case covering a two-year FAC review period is closed, no adjustments for that period can be made. Therefore, Kentucky Power proposes a one-time adjustment be made to a future FAC filing which would refund \$210,151.09 to customers.<sup>2</sup> Kentucky Power requests that the Commission approve the refund with this Order.

Kentucky Power also proposes to correct the misallocation to its OSS by making a one-time charge of \$413,441.63. Kentucky Power's proposed adjustment covers the entire misallocation period of July 2011 through June 2012. To avoid double-recovery, the proposed OSS adjustment does not include OSS-related charges that were incorrectly recovered through the FAC during the period July 2011 through October 2012. Kentucky Power requests that the Commission approve the \$413,441.63 charge with this Order.

Kentucky Power calculated the effect of the misallocations on its ES mechanism to be \$9,008.00 and proposes to make an adjustment for this amount in Case No. 2013-

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<sup>1</sup> Case No. 2012-00550, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2010 through October 31, 2012* (Ky. PSC Jun. 5, 2013).

<sup>2</sup> If the misallocations for the period July 2011 through October 2012 were corrected, the additional refund to customers through the FAC would be \$525,522.94. However, because of the sharing component of the OSS mechanism, the misallocation's net effect on customers by not correcting that earlier period is equal to only 40 percent of that amount.

00325,<sup>3</sup> a pending two-year ES review in which the review period coincides with the misallocation period of July 2011 through June 2013.

### Discussion

#### Misallocations Related to the FAC.

The Commission agrees that the June 5, 2013 final order in Case No. 2012-00550 closed the two-year period ending October 2012 for the FAC and that no adjustment can be made for misallocations related to the FAC prior to November 2012. However, the review period in this proceeding extends only to April 30, 2013. The misallocations of PJM charges and credits during the months of May and June 2013 lie outside of the review period and will not be addressed in this proceeding. Therefore, the Commission finds that Kentucky Power should refund to its customers \$169,219.72<sup>4</sup> through its FAC for the months of November 2012 through April 30, 2013. Kentucky Power should file a request to refund the remaining \$40,931.37 to its customers in its next FAC review proceeding.

#### Misallocations Related to OSS.

At the hearing in this matter, Kentucky Power was asked about the impact of KRS 278.225 on its request to recover \$413,441.63 through its OSS mechanism. KRS 278.225 states:

All service supplied by a utility shall be billed within two (2) years of the service. No customer shall be liable for unbilled service after two (2) years from the date of the service,

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<sup>3</sup> Case No. 2013-00325, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Two-Year Billing Period Ending June 30, 2013* (initiated on Sept. 11, 2013).

<sup>4</sup> See the attachment to the October 7, 2013 informal conference memorandum labeled "LSE/OSS Allocation Analysis." \$169,219.72 represents the total of the amounts that appear on line 12 for the months of November 2012 through April 2013.

unless the customer obtained the service through fraud, theft, or deception.

Kentucky Power filed a post-hearing response to address the issue. In its response Kentucky Power admits that KRS 278.225 applies in this matter, but puts forth two arguments. First, Kentucky Power argues that there is a lag inherent in its billing because PJM expenses incurred in one month are applied to bills rendered two months later. For example, September 2011 PJM expenses are split between service rendered in October and November 2011 due to cycle billing. Second, Kentucky Power argues that, upon discovering the misallocation, it elected to inform the Commission and to await an Order in this proceeding rather than to immediately bill customers the additional expenses. Kentucky Power claims that, otherwise, it would have billed its customers no later than September 27, 2013. As a result, Kentucky Power requests that “. . . its bills issued to recover the misallocated PJM off-system sales expenses be treated as having been rendered beginning on September 27, 2013.”<sup>5</sup> If the Commission were to grant this request, and taking into account the billing lag, Kentucky Power states that the entire \$413,441.63 would fall within the KRS 278.225 limitation.

After a review of the record, the Commission finds that Kentucky Power’s request to treat its bills issued to recover the misallocated PJM OSS charges and credits as having been rendered on September 27, 2013 should be denied. KRS 278.225 clearly states that “All service supplied by a utility shall be billed within two (2) years of the service.” As the misallocation period began in July 2011, more than two years prior to the date of this Order, the Commission finds that Kentucky Power’s request to make a

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<sup>5</sup> Kentucky Power’s October 22, 2013 response to Commission Staff’s Post-Hearing Data Request.

one-time charge of \$413,441.63 to correct the misallocated OSS charges and credits is contrary to the two-year billing requirement set forth in KRS 278.225 and must be denied. There is no provision in KRS 278.225 to authorize a filing with the Commission to operate as a tolling of the two-year back billing limitation. The Commission finds that, since Kentucky Power bills on a monthly cycle basis, and its first billing cycle subsequent to the date of this Order will be the December 2013 billing cycle, it should be authorized to rebill for service supplied on and after December 2011. Therefore, Kentucky Power should be authorized to make a one-time charge of \$329,045.77<sup>6</sup> through its OSS mechanism.

#### Misallocations Related to the ES.

As previously stated, Kentucky Power proposes to make an adjustment for misallocations of PJM charges and credits related to the ES in Case No. 2013-00325. The Commission finds that an adjustment related to ES should be addressed in Case No. 2013-00325.

#### Six-Month FAC Summary

The Commission has previously established Kentucky Power's base fuel cost as 28.40 mills per kWh.<sup>7</sup> A review of Kentucky Power's monthly FAC filings shows that the actual fuel cost incurred for the six-month period under review ranged from a low of 21.68 mills in November 2012 to a high of 32.69 mills in December 2012, with a six-month average of 27.96 mills. Outside of the misallocation of certain PJM charges and

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<sup>6</sup> See the attachment to the October 7, 2013 informal conference memorandum labeled "LSE/OSS Allocation Analysis". \$329,045.77 is 60 percent multiplied by the total of the amounts that appear on lines 10 and 11 for the months of December 2011 through June 2013. Sixty percent is the customer OSS sharing percentage.

<sup>7</sup> Case No. 2008-00518, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2006 Through October 31, 2008* (Ky. PSC May 27, 2009).

credits discussed herein, the Commission finds that there is no evidence of improper calculation or application of Kentucky Power's FAC charges or improper fuel procurement practices.

IT IS THEREFORE ORDERED that:

1. In its November 2013 FAC filing made subsequent to the date of this Order, or as amended if filed prior to the date of this Order, Kentucky Power shall include a one-time credit of \$169,219.72 to refund to customers for misallocated PJM charges and credits as discussed herein. Kentucky Power shall file a request to refund the remaining \$40,931.37 to its customers in its next FAC review proceeding.

2. Kentucky Power's request to treat its bills issued to recover the misallocated PJM OSS expenses as having been rendered on September 27, 2013, is denied.

3. Kentucky Power's request to make a one-time charge of \$413,441.63 to correct the misallocated OSS charges and credits is denied.

4. In its November 2013 OSS filing made subsequent to the date of this Order, or as amended if filed prior to the date of this Order, Kentucky Power is authorized to make a one-time charge of \$329,045.77.

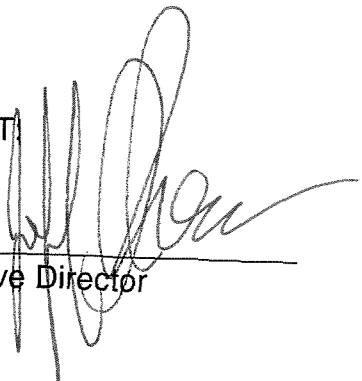
5. The Commission shall address the effect of the misallocations on Kentucky Power's ES mechanism in Case No. 2013-00325.

6. Outside of the misallocation of certain PJM charges and credits discussed in this Order, the charges and credits billed by Kentucky Power through its FAC for the period November 1, 2012 through April 30, 2013 are approved.

By the Commission

ENTERED  
NOV 22 2013  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST

  
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Executive Director

Case No. 2013-00261

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