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, 2013 THROUGH APRIL 30, 2014	))))	CASE NO. 2014-00225

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission an original paper copy and an electronic copy of the following information, with a copy to all parties of record. The information requested herein is due no later than October 1, 2014. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to questions related to the information provided.

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 the 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.

Kentucky Power 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. For any request to which

Kentucky Power fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Kentucky Power's response to Item 1.b.(1) of Commission Staff's Second Request for Information ("Staff's Second Request").

a. Confirm that this response indicates that Kentucky Power interpreted the February 7, 2005 Order in Case No. 2004-00430[1] denying East Kentucky Power Cooperative, Inc.'s ("EKPC") proposal to record non-economy power purchases as zero and the March 21, 2005 Order in that same proceeding which clarified the definition of "non-economy purchases," to nullify the Commission's May 2, 2002 and September 20, 2002 Orders in a Kentucky Power proceeding, Case No. 2000-00495-B, in which Kentucky Power requested and received authority to use a proxy when calculating fuel costs during a planned outage. If confirmed, explain whether Kentucky Power sought confirmation from the Commission of this presumed nullification. If Kentucky Power did not seek confirmation, explain why.

b. State whether there are any other fuel adjustment clause ("FAC") related Orders in non-Kentucky Power proceedings that Kentucky Power has

[1] Case No. 2004-00430, *East Kentucky Power Cooperative's Request for a Declaratory Ruling on the Application of Administrative Regulation 807 KAR 5:056 to its Proposed Treatment of Non-Economy Energy Purchases* (Ky. PSC Mar. 21, 2005).

interpreted as nullifying an Order in a previous Kentucky Power FAC proceeding. If so, identify the Order or Orders and explain Kentucky Power's interpretation(s).

c. The response states that the language in the February 7, 2005 and March 21, 2005 Orders indicate "...that the entire, actual costs of the non-economy energy purchase should be used in lieu of any lesser or greater amount." On page 5 of the May 2, 2002 Orders in Cases No. 2000-00495-B[2] and 2000-00496-B,[3] the Commission states:

> We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the <u>lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched</u> to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates. [Emphasis added].

On pages 5-6 of the March 21, 2005 Order in Case No. 2004-00430, the Commission states:

> Since EKPC's purchases to meet native load demand in excess of native generation have no avoided costs and generally are less than the avoided cost of EKPC's highest cost generating unit available to serve native load during an FAC expense month, Salt River argues, they do not meet the definition of "non-economy energy purchases." While Salt River is correct on this point, its argument does not require reconsideration of our February 7, 2005 Order. The definition of "non-economy energy purchases" set forth in our Order in Case No. 2000-00496-B too narrowly construes 807 KAR 5:056 and conflicts with the regulation. A more

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[2] Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002).

[3] Case No. 2000-00496-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002).

> accurate definition of non-economy energy purchases recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generation unit available to serve native load. To the extent that the definition in our Order in Case No. 2000-00496-B conflicts with our Order of February 7, 2005, we find that it was incorrect and should be overruled.

Explain how making the clarification that "non-economy energy purchases" recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generation unit available to serve native load would nullify the language from the May 2, 2002 Orders in Cases No. 2000-00495-B and 2000-00496-B which limits recovery through the FAC to "only the <u>lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched</u> to serve native load during the reporting expense month." [Emphasis added].

d. The May 2, 2002 Orders in Cases No. 2000-00495-B and 2000-00496-B also state, "Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered 'non-FAC expenses' and, if reasonably incurred, are otherwise eligible for recovery through base rates." Kentucky Power's response to Item 26 of the Commission's August 13, 2014 Request for Information states that it does not limit the cost of purchase power when calculating the FAC. Identify what type of non-economy purchases Kentucky Power believed the Commission was referring to in the above quote that would be classified as "non-FAC expenses" otherwise eligible to be recovered through base rates.

2. Refer to Kentucky Power's response to Item 2 of Staff's Second Request. The response states that "[t]he Commission's Order dated [sic] in Case No. 2004-00430 overturned the Commission's previous Order in Case No. 2000-00496B."

a. State whether Kentucky Power believes that the entire Order in Case No. 2000-00496-B was "overturned," or just the definition of "non-economy energy purchases."

b. If Kentucky Power believes the entire Order was "overturned," state which Order (the February 7, 2005 or the March 21, 2005) "overturned" the Order in Case No. 2000-00496-B.

c. If Kentucky Power believes that only the definition of "non-economy energy purchases" as it appeared in the Order in Case No. 2000-00496-B was corrected, explain how making the clarification that "non-economy energy purchases" recognizes that energy costs may be greater or less than the variable cost of the highest cost generation unit available to serve native load would nullify the language from the May 2, 2002 Orders in Cases No. 2000-00495-B and 2000-00496-B which limits recovery through the FAC to "only the <u>lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched</u> to serve native load during the reporting expense month." [Emphasis added]

3. Refer to Kentucky Power's response to Item 3 of Staff's Second Request. The response states that "[T]he Company's resources were constructed or obtained by contract for the purpose of serving internal load." Given that the purchase of the interest in the Mitchell Station was made to replace the Big Sandy unit 2 generation,

explain why both Big Sandy 2 and the Mitchell Station would be considered as being for the purpose of serving internal load.

4. Refer to Kentucky Power's response to Item 4.b.(1) of Staff's Second Request. The response states that "[a]s a result, the remaining generation costs of each unit at the unit minimums, which includes the no load costs and other incremental cost between the no load cost and the unit minimum, remains with internal load." Explain what is meant by "other incremental cost between the no load cost and the unit minimum."

5. Refer to Kentucky Power's response to Item 4.c. of Staff's Second Request. The response states that "the allocation illustrated in KPSC 2-4 Attachment 3 would have the effect of depriving the Company of the 100% of OSS margins it is entitled to retain under the Settlement Agreement in Case No. 2012-00578." Explain whether Kentucky Power informed the Commission in that proceeding that "no load costs" were allocated 100 percent to native load customers and, with the Mitchell Transaction, additional "no load costs" would be allocated to native load customers. Include in the response whether or not "no load costs" were included in any calculation in that proceeding of the effect the Mitchell Transaction would have on customers' bills.

6. Refer to Kentucky Power's response to Item 4.d. of Staff's Second Request which states that "Big Sandy was needed to serve internal load during March and April of 2014." State whether Big Sandy was actually "needed" to service native load or was allocated to serve native load in that the Big Sandy "no load costs" were allocated to native load customers. If the response is that Big Sandy was "needed," explain why Big Sandy was necessary to serve native load during these months, in

particular the shoulder month of April 2014, when it was at the bottom of the dispatch order as shown in the response to Attachment 1 of Item 4.

7. Refer to the response to Item No 5. c. Staff's Second Request.

a. Confirm that the 4-East Coal Scale, the 4-West Coal Scale, the 3A Coal Scale, and the 3B Coal Scale all have routine calibrations conducted on the scales once per month each and every month.

b. Explain how the physical and perpetual inventory got out of balance if the scales removing the coal from inventory are calibrated monthly.

c. State whether the imbalance between the perpetual level and physical level of inventory happened in a one-month period or over several months since the date of the last physical inventory. If in one month, identify the month.

8. Refer to the electronic spreadsheet filed on September 16, 2014, as KPSC 2-1 Attachment.

a. Refer to the Tab "Summary".

(1) Explain why the cells in C7 through C13 differ from each other (i.e., why some refer to the cell in the previous column, while others are a formula, and others are a number). For example, cell C7 references cell B7 when it appears that cell C7 should be a formula that pulls data from the "2014" Tab.

(2) Explain why the cells in E7 through E13 differ from each other (i.e., why some refer to the cell in the previous column, while others are a formula, and others are a number).

b. Refer to the "2014" Tab.

(1) Explain why the formulas in cells P43 and P59 differ from the formulas in remaining cells of column P. Include in the response the reason why all formulas in the column should not be the same as the formulas in cells P43 and P59.

(2) Explain the origin of the amounts in column O and why the amounts do not equal column N multiplied by column E. For example, explain why cell O59 is not the product of N59 multiplied by E59.

(3) If corrections are necessary, provide an updated KPSC 2-1.

9. Refer to Item 10 of Kentucky Power's response to Commission Staff's Fifth Request for Information in Case No. 2012-00578, Attachment 1, page 1 of 1.

a. Confirm that this schedule demonstrates the percentage change in Kentucky jurisdictional revenue requirement comparing the following three different scenarios: 1) the percentage change in the Kentucky jurisdictional revenue requirement associated with the installation of a Dry Flue Gas Desulfurization Scrubber at the Big Sandy Unit No. 2; 2) the percentage change in the Kentucky jurisdictional revenue requirement associated with the Stipulation and Settlement Agreement of the Mitchell Transfer during the overlap period (January 2014 through June 2015); and 3) the percentage change in jurisdictional revenue requirement associated with the Mitchell Transfer Post Big Sandy Unit retirement (July 2015 and forward). If this cannot be confirmed, explain what the schedule represents.

b. In the Mitchell Transfer Overlap Period column, state which line number and the amount includes the Mitchell Units annual "no load costs."

c. If the annual "no load costs" for Mitchell are not reflected in column 2, provide the impact the Mitchell "no load costs" would have on the percentage change amount of 5.33 percent shown on line 13, column 2.

10. Given that Kentucky Power allocates 100 percent of "no load costs" to native load customers, state whether Kentucky Power or American Electric Power Company employees were aware of the magnitude that the Mitchell "no load costs" would have on Kentucky Power's internal customers prior to the July 2, 2013 filing of the Stipulation and Settlement Agreement in Case No. 2012-00578.[4]

11. Provide in Excel format, with cells and formulas intact, a monthly calculation of a residential customer's bill using 1,300 kWh each month for the monthly periods December 2013 through the most recent billing period, showing the individual components of the bill for each month. Also, show the percentage change each month using December 2013 as the base amount along with the average percentage change for the period January 2014 through the most recent billing period.

12. Refer to Kentucky Power's response to Item 15 of the Kentucky Industrial Utility Customers, Inc. First Information Request, Attachment 1, the section pertaining to Off System Energy Sales by Energy Sales Type.

a. Explain the category "PJM Mkt Pur Required" as it relates to off-system sales.

b. Explain the category "MONE1-3" as it relates to off-system sales.

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[4] Case No. 2012-00578, *Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Ruling; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2013).

c. Explain the category "Real Time Purchases" as it relates to off-system sales.

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DATED SEP 23 2014

cc: Parties of Record

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