

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY FOR (1) A GENERAL)	
ADJUSTMENT OF ITS RATES FOR ELECTRIC)	CASE NO.
SERVICE; (2) AN ORDER APPROVING ITS 2017)	2017-00179
ENVIRONMENTAL COMPLIANCE PLAN; (3) AN)	
ORDER APPROVING ITS TARIFFS AND RIDERS;)	
(4) AN ORDER APPROVING ACCOUNTING)	
PRACTICES TO ESTABLISH REGULATORY)	
ASSETS AND LIABILITIES; AND (5) AN ORDER)	
GRANTING ALL OTHER REQUIRED APPROVALS)	
AND RELIEF)	

ORDER

By petition filed on February 7, 2018, Kentucky Power Company (“Kentucky Power”) requests a rehearing of the Commission’s final Order issued on January 18, 2018. Among other things, the January 18, 2018 Order approved a \$12,348,630 increase in Kentucky Power base rate. Kentucky Power requests rehearing on the following: 1) the methodology for calculating Kentucky Power’s tax expense savings arising from the reduction in the federal corporate income tax rate from 35 percent to 21 percent; 2) the adjustment to Tariff Purchase Power Agreement (“P.P.A.”) Forced Outage Expense; 3) Tariff P.P.A. peaking unit equivalent (“PUE”) cost calculation; 4) reporting gains and losses from incidental gas sales; 5) recovery of the Rockport Deferral Regulatory Asset; and 6) adjustments to accounts receivable financing.

Kentucky Industrial Utility Customers, Inc. (“KIUC”) and the Attorney General of the Commonwealth of the Kentucky, by and through his Office of Rate Intervention (“Attorney General”) filed their respective responses to Kentucky Power’s petition for rehearing. Kentucky Power filed a reply to each response. No other parties filed a response to Kentucky Power’s petition for rehearing.

DISCUSSION AND FINDINGS

Methodology for Calculating Kentucky Power’s Tax Expense Savings

In the January 18, 2018 Order, the Commission adjusted Kentucky Power’s tax expense in the amount of \$13,943,890 to reflect a reduction in federal corporate income tax rate from 35 percent to 21 percent. Kentucky Power asserts that the Commission erred in the methodology used to calculate the tax expense adjustment and that the Commission’s methodology understates Kentucky Power’s revenue requirement by \$765,030. Kentucky Power proposes a methodology that it claims is consistent with its methodology for booking tax expense. Kentucky Power also argues that the case record contains insufficient evidence to support the Commission’s adjustment reducing the tax expense.

KIUC asserts that the methodologies used by the Commission and Kentucky Power are both correct and reasonable, but that Kentucky Power’s methodology is more consistent with the rate case filing. The Attorney General proposes that this issue be addressed in the pending tax impact case, Case No. 2018-00035,¹ rather than on rehearing in this rate case.

¹ Case No. 2018-00035, *Kentucky Industrial Utility Customers, Inc., v. Kentucky Power Company* (Ky. PSC Jan. 25, 2018) (order separating Case No. 2017-00477, an omnibus complaint against four utilities, into three separate cases).

Having reviewed the petition, response, and replies, and being otherwise sufficiently advised, the Commission finds that rehearing should be granted to allow the record in this case to be more fully developed on the issue of methodology for calculating the tax expense adjustment. Once this issue is more fully developed, the Commission will be able to determine whether a further adjustment to the tax expense is needed and, if so, whether that adjustment should be made in this case or in Case No. 2018-00035.

Tariff P.P.A. Forced Outage Expense

Kentucky Power asserts that the Commission improperly excluded Forced Outage Expense from the base-rate revenue requirement, and therefore the base-rate revenue requirement should be increased by \$1,158,285. Kentucky Power also requests approval to establish a regulatory asset to defer Forced Outage Expenses above \$1,158,285. Kentucky Power states that it removed the test-year amount of Forced Outage Expense from the test year through Adjustment W9. Its direct testimony filed in support of Adjustment W9 states that,

“[d]uring the test year, the Company collected retail revenues of \$448,154 through Tariff PPA, but incurred expenses that are recoverable through Tariff PPA of \$820,696. The Company adjusted test year Tariff PPA revenues to synchronize revenues with recoverable costs.”²

Kentucky Power’s petition for rehearing states the adjustment “removed the unrecovered expenses from the cost of service.” However, Adjustment W9 increases test-year expenses by \$372,542. This results in Tariff P.P.A. revenues of \$448,154 and

² Direct Testimony of John Rogness, Page 5.

expenses of \$1,193,238 included in the test year. Furthermore, based on Adjustment W9 workpapers, the Forced Outage Expense removed through Adjustment W9 totals \$745,360, not the \$1,158,285 Kentucky Power seeks to include. Kentucky Power also asserts that the Commission arbitrarily reversed its prior decision to allow recovery of Forced Outage Expense through Tariff P.P.A.

KIUC agrees with Kentucky Power that the \$1,158,285 was incorrectly removed from base rates, but objects to Kentucky Power's request to establish a regulatory asset to defer Forced Outage Expenses above \$1,158,285, arguing that the deferral is functionally the same approach that was rejected by the Commission. The Attorney General contends the Commission's treatment of Forced Outage Expenses was appropriate and that rehearing on this issued should be denied.

The Commission finds no merit in Kentucky Power's claim that we have reversed any prior decision to allow recovery of Forced Outage Expense through the P.P.A. Forced Outage Expense currently recovered through the P.P.A. is unaffected by the January 18, 2018 Order. That Order excludes only the proposed amounts excluded from the Fuel Adjustment Clause ("FAC") through the Purchased Power Limitation. Generator forced outages are excluded from the FAC separately and recovered through the PPA. However, the Commission does find that rehearing should be granted to allow the record to be more fully developed to clarify the accounting for Forced Outage Expenses and to determine whether the revenue requirement should be increased or reduced as appropriate.

Tariff P.P.A. Peaking Unit Equivalent Cost Calculation

Kentucky Power argues that, in excluding firm gas supply in the peaking unit equivalent cost calculation, the Commission erred by also excluding transportation retainage, the park and lend rate, and FERC annual charge adjustment costs, which are associated with obtaining interruptible gas service.

KIUC did not take a position on this issue. The Attorney General requests that rehearing be denied, asserting that the Commission's findings were appropriate and should be upheld.

The Commission finds that rehearing should be granted to clarify the January 18, 2018 Order. The only costs specifically denied in the January 18, 2018 Order are costs directly related to procuring firm gas transportation. The January 18, 2018 Order makes no mention of disallowing transportation retainage, the park and lend rate, or the FERC annual charge adjustment. To provide the needed clarification, the last sentence of the first paragraph on page 56 of the January 18, 2018 Order is amended as follows: "Kentucky Power's proposal to include startup costs, variable O&M expense, transportation retainage, park and lend rates, and FERC annual charge adjustment costs is reasonable and should be approved."

Tariff P.P.A. Reporting Gains and Losses from Incidental Gas Sales

Kentucky Power proposes to report gains and losses from incidental gas sales through fuel adjustment clause ("FAC") backup filings, rather than in a formal proceeding, as directed in the January 18, 2018 Order. Kentucky Power argues that it incurs the gains and losses in the ordinary course of business, and, therefore, filing formal proceedings would be cost prohibitive.

KIUC agrees that gains and losses from incidental gas sales should be filed with FAC filings because it is transparent, since such filings are publicly available, and is practical. The Attorney General is silent on this issue.

The Commission finds that utilizing Kentucky Power's FAC backup filing for reporting gains and losses from incidental gas sales would be inappropriate since these gains and losses are unrelated to Kentucky Power's FAC. To the extent that Kentucky Power merely seeks to report the gains and losses, Kentucky Power may send a report to the Commission providing notice of such gain or loss. The report, along with a cover letter, should include the purchase price of the gas, per dekatherm ("DTH"); the sale price of the gas, per DTH; the quantity of gas sold, in DTH; and the total gain or loss realized. The reports will be maintained in Kentucky Power's general correspondence file.

However, to the extent that Kentucky Power is requesting rehearing for the purpose of establishing an automatic recovery mechanism for its gains and losses from incidental gas sales, the intent of the January 18, 2018 Order, at page 57, was to deny such relief by stating that "those matters may be addressed in a formal proceeding." To the extent that these gains and losses are substantial, they may be treated as any other substantial change in expense or revenue. Kentucky Power may file an application to establish a regulatory asset if appropriate or may file an application for rate recovery. Thus, we will grant rehearing of the January 18, 2018 Order for the limited purpose of amending the second sentence in the first full paragraph on page 57 to provide that, "If Kentucky Power seeks to recover incidental gas sales gains or losses that occur in the

future, it must file an application to request such recovery or request recovery in the next rate case.”

Accounts Receivable Adjustment

Kentucky Power argues that the Commission’s treatment of Kentucky Power’s accounts receivable financing is unreasonable, and that its base rate revenue requirement should be increased by \$391,702. In the January 18, 2018 Order, the Commission adjusted Kentucky Power’s capital structure based upon the findings that selling receivables to American Electric Power Company, Inc. while retaining uncollectible accounts on Kentucky Power’s books placed an undue burden on ratepayers, and that the cost of accounts receivable financing is higher than the cost of short-term financing. Kentucky Power argues that an accounts receivable seller bears the cost associated with bad debt, either through payment of a claim made by the accounts receivable purchaser for uncollected accounts in with-recourse accounts receivable financing or through a discount in without-recourse accounts receivable financing. Here, Kentucky Power contends that its accounts receivable discount includes a bad debt component. Kentucky Power further argues that the Commission’s assumption that Kentucky Power would replace accounts receivable financing exclusively with short-term debt is not supported by the record and that it sponsored testimony that accounts receivable financing would be replaced with a mix of equity, long-term debt, and short-term debt.

KIUC agrees with Kentucky Power’s position. The Attorney General contends that the Commission’s findings were reasoned and balanced, and thus rehearing on this issue should be denied.

The Commission finds that the accounts receivable adjustments are reasonable, lawful, and supported by evidence in the record, and therefore rehearing on this issue is denied. The Commission reduced the percentage of accounts receivable financing from 1.95 percent to 1.67 percent by blending funds between short-term debt and accounts receivable financing. The Commission notes that it did not disallow Kentucky Power's accounts receivable financing, but instead made reasonable adjustments. Despite Kentucky Power's arguments to the contrary, it is not reasonable to conclude that a prudent business would exclusively utilize long-term debt, with its higher rates, to fund accounts receivables instead of utilizing some portion of short-term financing at a lower rate.

Clarification on Recovery of the Rockport Deferral

Kentucky Power requests that the Commission clarify language in the January 18, 2018 Order that appears to limit the time period and recovery mechanism for the Rockport Deferral Regulatory Asset, and conditions any such recovery of the Rockport Deferral Regulatory Asset on Kentucky Power not renewing the Rockport Unit Power Agreement ("UPA"), which is contrary to the Settlement Agreement. Kentucky Power contends that its credit rating could be at risk absent clarification.

KIUC concurs with Kentucky Power that the language should be clarified. The Attorney General argues that rehearing should be denied, arguing that Kentucky Power seeks to modify the January 18, 2018 Order to obtain a greater benefit from a more expansive order and to preclude the Commission from addressing the recovery mechanism in a future rate case.

The Commission finds that the costs to be recovered by Kentucky Power for its UPA are established by the Federal Energy Regulatory Commission, and as the UPA represents an assignment of costs from an affiliate of Kentucky Power, the Commission has no discretion to deny recovery of those costs. We can, however, determine the manner and timing of cost recovery. Here, Kentucky Power has agreed to defer the current cost recovery of the Rockport UPA and to record a deferred asset to reflect the subsequent recovery of those costs in rates. Under these circumstances, Kentucky Power is correct that the recording of a deferred asset is not just for accounting purposes but is to reflect the future rate recovery of the deferred UPA costs. For these reasons, the Commission will grant rehearing for the limited purpose of amending the January 18, 2018 Order, beginning at the bottom of page 39 and continuing to the top of page 40 to state that:

The recovery period of the proposed Rockport Deferral Mechanism is not contingent upon Kentucky Power's decision whether or not to renew the Rockport UPA. Given Kentucky Power's excess capacity and slow load growth, the Commission believes the benefits of the deferral outweigh the associated risks, and approves the Rockport deferral mechanism and the associated \$15 million decrease to rate base. The carrying charges associated with the Rockport Deferral Mechanism shall be as specific in paragraph 3(c) on page 5 of the Settlement Agreement attached as Appendix A to the January 18, 2018 Order.

Options for Addressing Potential Adjustments

Should the Commission find that any of the proposed adjustments are reasonable, Kentucky Power proposes that all adjustments be addressed in this rate case or in Case No. 2018-00035, the tax impact complaint. KIUC argues that adjustments applicable to the rate case should be made in the rate case and not Case

No. 2018-00035. KIUC asserts that, as the complainant in Case No. 2017-00035, the burden of proof shifts from Kentucky Power to KIUC if the adjustment is addressed in the tax complaint. The Attorney General argues that adjustments should be addressed in the tax complaint.

The Commission finds that this case is the appropriate forum to litigate the issues for which we now grant rehearing to further develop the record. Once this rehearing record is fully developed and the Commission is able to determine what adjustments, if any, are reasonable and appropriate, we will also determine whether the adjustments should be applied in this proceeding or in Case No. 2018-00035.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's petition for rehearing is granted in part and denied in part.
2. Kentucky Power's petition for rehearing on the issue of the methodology for calculating the tax expense adjustment is granted.
3. Kentucky Power's petition for rehearing on the issue of the Tariff P.P.A. Forced Outage Expense adjustment is granted.
4. Kentucky Power's petition for rehearing on the issue of PUE cost calculation is granted to the limited extent that the last sentence of the first paragraph on page 56 of the January 18, 2018 Order is amended as follows: "Kentucky Power's proposal to include startup costs, variable O&M expense, transportation retainage, park and lend rates, and FERC annual charge adjustment costs is reasonable and should be approved." With this amendment to the January 18, 2018 Order, this issue is closed.

5. Kentucky Power's petition for rehearing on the issue of reporting incidental gas sales gains and losses is granted to the limited extent that the second sentence in the first full paragraph on page 57 of the January 18, 2018 is amended to provide that, "If Kentucky Power seeks to recover incidental gas sales gains or losses that occur in the future, it must file an application to request such recovery or request recovery in the next rate case." With this amendment to the January 18, 2018 Order, this issue is closed.

6. Kentucky Power's petition for rehearing on the issue of the accounts receivable adjustment is denied.

7. Kentucky Power's petition for rehearing on the issue of clarifying recovery of the Rockport Deferral Mechanism is granted to the limited extent that the January 18, 2018 Order is amended as specified in the findings above. With the amendment to the January 18, 2018 Order, this issue is closed.

By the Commission

ENTERED
FEB 27 2018
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2017-00179

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