

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION BY THE	)	
PUBLIC SERVICE COMMISSION OF THE	)	
ENVIRONMENTAL SURCHARGE	)	CASE NO.
MECHANISM OF KENTUCKY POWER	)	2020-00133
COMPANY FOR THE TWO-YEAR BILLING	)	
PERIOD ENDING JUNE 30, 2019	)	

ORDER

On April 29, 2020, the Commission initiated a two-year review of Kentucky Power Company's (Kentucky Power) environmental surcharge, as billed to customers from July 1, 2017, to June 30, 2019.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge, disallow any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable. At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge, disallow improper expenses, and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

The April 29, 2020 Order included a procedural schedule that provided for discovery and the filing of prepared testimony and intervenor testimony. Kentucky Power filed prepared direct testimony and responded to one request for information from Commission Staff. There are no intervenors in this proceeding. On June 25, 2020,

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<sup>1</sup> Because Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2017 through June 2019 are based on costs incurred from May 2017 through April 2019.

Kentucky Power requested that this case be submitted for a decision based on the existing record without a public hearing. Finding good cause, the Commission will grant Kentucky Power's request and decide this case based on the evidence of record without a hearing.

For purposes of this review, the Commission has examined Kentucky Power's monthly environmental surcharges for the six-month billing period ended June 30, 2019, and for the two-year billing period ended June 30, 2019. The three previous six-month billing periods of this two-year period were reviewed in Case Nos. 2018-00076, 2018-00307, and 2019-00140.<sup>2</sup>

### SURCHARGE ADJUSTMENT

Kentucky Power did not propose any additional over- or under-recovery for the review period.<sup>3</sup> Having reviewed the record, the Commission finds that Kentucky's determination that it did not have any additional over- or under-recovery for the review period is reasonable.

Kentucky Power states that the average residential customer's monthly usage for the current review period was 1,283 kilowatt-hours.<sup>4</sup> Because Kentucky Power

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<sup>2</sup> Case No. 2018-00076, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending December 31, 2017* (Ky. PSC July 24, 2018); Case No. 2018-00307, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending June 30, 2018* (Ky. PSC Jan. 16, 2019); and Case No. 2019-00140, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period December 31, 2018* (Ky. PSC Oct. 7, 2019).

<sup>3</sup> Kentucky Power's response to Commission Staff's First Request for Information (Response to Staff's First Request) (filed May 29, 2020), Item 1.

<sup>4</sup> Response to Staff's First Request, Item 8.

determined it did not have any additional over- or under-recovery for the review period, there will be no additional impact on an average residential customer's bill.

### SURCHARGE ROLL-IN

Kentucky Power is not proposing to incorporate any additional surcharge amounts into its base rates in conjunction with this two-year review, consistent with its position in prior two-year reviews.<sup>5</sup> The environmental surcharge statute directs the Commission to incorporate surcharge amounts found just and reasonable into the utility's existing base rates, but only to the extent appropriate.<sup>6</sup> The Commission has reviewed and finds reasonable Kentucky Power's recommendation to not incorporate additional environmental surcharge amounts into base rates in this proceeding.

### RATE OF RETURN

In Case No. 2017-00179, the Commission determined that for environmental surcharge purposes, Kentucky Power is authorized a return on common equity of 9.70 percent.<sup>7</sup> It also specified that Kentucky Power utilize a weighted average cost of capital (WACC) of 6.44 percent and a gross revenue conversion factor (GRCF) of 1.352166 in the monthly environmental surcharge filings.<sup>8</sup> Utilizing a WACC of 6.44 percent and a GRCF of 1.352116 produces a rate of return of 7.88 percent to be used in the monthly

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<sup>5</sup> Response to Staff's First Request, Item 4.

<sup>6</sup> KRS 278.183(3).

<sup>7</sup> Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 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* (Ky. PSC Jan. 18, 2018), Order at 27 and 65.

<sup>8</sup> *Id.* at 66.

environmental surcharge filings.<sup>9</sup> The WACC and GRCF shall remain constant until the Commission sets base rates in Kentucky Power's next base rate case proceeding. Therefore, the Commission finds that the combination of these components, which produces an overall grossed-up rate of return of 7.88 percent, should be used in all monthly environmental surcharge filings until changed by subsequent Order of the Commission.

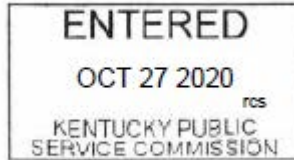
IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. Kentucky Power's determination that it had no additional over- or under-recovery for the review period is approved.
3. Kentucky Power shall use a weighted average cost of capital of 6.44 percent and a tax gross-up factor of 1.352116, a return on equity rate of 9.70 percent, and an overall grossed-up return of 7.88 percent in all monthly environmental surcharge filings subsequent to the date of entry of this Order.
4. The environmental surcharge amounts determined by Kentucky Power for the two-year review period ending June 30, 2019 are approved.
5. This case is closed and removed from the Commission's docket.

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<sup>9</sup> *Id.*

By the Commission



ATTEST:



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Deputy Executive Director

Case No. 2020-00133

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