

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF KENTUCKY |) | CASE NO. |
| POWER COMPANY FOR THE SIX-MONTH |) | 2013-00141 |
| BILLING PERIOD ENDING DECEMBER 31, 2012 |) | |

ORDER

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), the Commission must review the past operations of the environmental surcharge at six-month intervals. After hearing, as ordered, the Commission may, by temporary adjustment to the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs that are recoverable pursuant to KRS 278.183(1). Therefore, the Commission hereby initiates the six-month review of the surcharge as billed from July 1, 2012 to December 30, 2012.²

On March 29, 2012, Kentucky Power filed with the Commission written notification of its election pursuant to 807 KAR 5:001, Section 8, to use the electronic

¹ Case No. 1996-00489, Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Wastes and By-Products (Ky. PSC May 27, 1997).

² Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2012 through December 2012 are based on costs incurred from May 2012 through October 2012.

filing procedures in all future company six-month and two-year environmental surcharge review proceedings.³ As 807 KAR 5:001, Section 8, permits the Commission to direct the use of electronic filing procedures for proceedings which we initiate on our own motion, we find that electronic filing procedures should be used. As such, Kentucky Power shall follow the procedures set forth in 807 KAR 5:001, Section 8, when filing any document or paper in this matter. Pursuant to 807 KAR 5:001, Section 8, unless a party granted leave to intervene states its objection to the use of electronic filing procedures in a motion for intervention, the party shall be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means; the party shall file with the Commission within seven days of the date of an Order of the Commission granting the intervention a written statement that the party waives any right to service of Commission Orders by United States mail; and the party, or the party's authorized agent, possesses the facilities to receive electronic transmissions.

To facilitate this review, a procedural schedule is set forth in Appendix A to this Order. In accordance with that schedule, Kentucky Power is to file prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review. In addition, Kentucky Power is to file its response to the information requested in Appendix B to this Order. Since over- or under- recoveries may have occurred during the period under review in this proceeding, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. A person who submits a motion to intervene after

³ Letter from Mark R. Overstreet, Counsel for Kentucky Power Company, to Jeff Derouen, Executive Director, Public Service Commission (Mar. 29, 2013).

July 1, 2013 and, upon a showing of good cause, is granted full intervention shall accept and abide by the existing procedural schedule.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its original compliance plan and surcharge mechanism. The environmental surcharge, as billed during the period under review, provides recovery of the incremental costs associated with the original compliance plan, as well as the costs associated with the first, second, and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS THEREFORE ORDERED that:

1. Unless otherwise ordered by the Commission, the procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.

2. The procedural schedule set forth in Appendix A shall be followed in this proceeding.

3. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

4. a. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall include the name of the witness responsible for responding to the questions related to the information provided.

b. 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 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.

c. Any party 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.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

5. Within seven days of the Commission's granting of intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

6. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period are hereby incorporated by reference into the record of this case.

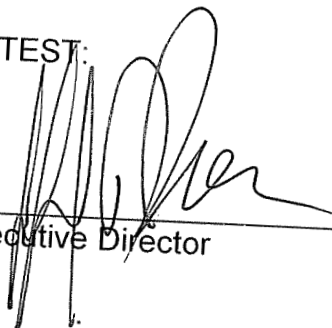
7. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

8. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ENTERED
MAY 14 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2013-00141

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00141 DATED MAY 14 2013

- Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 06/06/13
- An informal conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 06/27/13
- A person interested in becoming a party to this proceeding shall file a motion to intervene with the Commission pursuant to 807 KAR 5:001, Section 4(11) no later than.....07/01/13
- All additional requests for information to Kentucky Power shall be filed no later than..... 07/11/13
- Kentucky Power shall file responses to additional requests for information no later than 07/25/13
- Intervenor testimony, if any, in verified prepared form shall be filed no later than..... 08/08/13
- All requests for information to Intervenors shall be filed no later than 08/22/13
- Intervenors shall file responses to requests for information no later than 09/05/13
- Last day for Kentucky Power to request a hearing or submit this case for decision based on the record.....09/13/13

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00141 DATED MAY 14 2013

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

1. Provide a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing periods under review. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing periods in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was/were the source of the gain or loss.

3. Provide the following information as of October 31, 2012. In addition to the electronic filing, provide the information in Excel spreadsheet format with the formulas intact and unprotected.

a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.

b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

d. The weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in determining the information.

4. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 16, Monthly Environmental AEP Pool Capacity Costs from ES Form 3.14, Page 1 of 11, Column 5, Line 10. For the May 2012 through October 2012 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13. For the May 2012 through October 2012 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

6. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO₂ Emission Allowance Consumption. For the May 2012 through October

2012 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

7. Reference ES Form 3.11 for the months in this review period.

a. For each month in the six-month review period, provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10.

b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 7.a.

8. Provide the actual average residential customer's monthly usage. Based on this usage amount, provide the dollar impact any over- or under - recovery will have on the average residential customer's bill for the requested recovery period.

9. In Case No. 2011-00031,⁴ Kentucky Power proposed to recover costs incurred at several Ohio Power Company plants for polymer, lime hydrate and steam expense through the environmental surcharge. After further review, Kentucky Power withdrew its proposal. In cases 2012-00273⁵ and 2012-00504⁶ these same expenses continued to be recovered through the environmental surcharge mechanism.

⁴ Case No. 2011-00031, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending December 31, 2010 (Ky. PSC Apr. 16, 2012).

⁵ Case No. 2012-00273, 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, 2011 (Ky. PSC Dec. 12, 2012)

⁶ Case No. 2012-00504, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Period Ending December 31, 2012.

a. For the period under review in this case, were these same expenses also included in Kentucky Power's monthly filings for the billing months of July 2012 through December 2012?

b. For the periods in this review, provide an analysis by month of the dollar amount of any over-recovery of environmental costs due to including lime hydrate, polymer and steam expense in the monthly environmental surcharge filings.

10. In Case No. 2011-00031, Kentucky Power determined that it had not revised the capacity deficit amount and the company surplus weighting amounts each month on Form 3.14, which resulted in an over-recovery of the environmental surcharge. In cases 2012-00273 and 2012-00504, the same amounts were also not revised during the review periods.

a. Did Kentucky Power revise the capacity deficit amount and the company surplus weighting amounts for the billing months of July 2012 through December 2012?

b. For the period in this review, provide an analysis by month of the effect on the environmental surcharge recovered if the capacity deficit amount and the company surplus weighting amounts are revised to the correct amounts.

11. In Case No. 2012-00273, Kentucky Power proposed a revision to its methodology for calculating the cash working capital allowance component of its rate base.

a. Does Kentucky Power propose to make the same revision for this review period?

b. For the period in this review, provide an analysis by month of the effect on the environmental surcharge recovered if the cash working capital allowance calculation is revised as proposed.

12. During the review period in which Kentucky Power had customers taking service under the Experimental Real-Time Pricing Tariff ("RTP"):

a. Were the RTP customers billed the monthly environmental surcharge?

b. Did the fact that Kentucky Power had customers taking service under RTP have any impact on the level of environmental costs recovered from the non-RTP customers?

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