COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) THE GRANT OF A DEVIATION FROM THE ASYMMETRICAL PRICING REQUIREMENTS OF KRS 278.2207 IN CONNECTION WITH THE ASSIGNMENT TO APPALACHIAN POWER COMPANY BY KENTUCKY POWER COMPANY OF TWO CONTRACTS FOR DELIVERY OF COAL; AND (2) FOR ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2014-00264

ORDER

On July 22, 2014, Kentucky Power Company ("Kentucky Power") filed an application requesting that the Commission 1) grant Kentucky Power a deviation, to the extent required, from the asymmetrical pricing requirements of KRS 278.2207 in connection with the assignment by Kentucky Power to Appalachian Power Company ("Appalachian Power") of seven deliveries of coal at Kentucky Power's cost, and 2) grant all other required relief or approvals.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), was granted intervention in this matter on August 8, 2014. On September 19, 2014, the AG and Commission Staff each issued one round of information requests to Kentucky Power. Kentucky Power filed responses to the requests on October 3, 2014. The Commission has received neither comments nor requests for a hearing in this matter, which were due by October 17, 2014. The matter is now before the Commission for a decision on the record.

BACKGROUND

Kentucky Power provides electric utility service to approximately 175,000 retail customers in Kentucky[1] and owns a 50 percent undivided interest in the Mitchell generating station ("Mitchell station"), located in West Virginia. Appalachian Power provides electric utility service to approximately 1 million retail customers in Virginia and West Virginia. Both Kentucky Power and Appalachian Power are wholly owned subsidiaries of American Electric Power; therefore, Appalachian Power is an "affiliate" of Kentucky Power as that term is defined in KRS 278.010(18) and as that term is referenced in KRS 278.2207.

Kentucky Power is a party to two Coal Purchase and Sales Agreements with Trafigura AG ("Trafigura"). Kentucky Power is also a party to a Coal Contract with RWE Trading Americas Inc. ("RWE Trading"). Under the terms of these agreements, Kentucky Power was to receive delivery of coal by barge at the Mitchell station during May 2014.

On April 30, 2014, the barge unloader at the Mitchell station sustained a forced outage as a result of a broken head shaft. The forced outage period lasted approximately six weeks. As a result of the outage, Kentucky Power assigned seven deliveries of coal under the three aforementioned contracts to Appalachian Power. According to Kentucky Power, the assignments were required in order to avoid demurrage charges. The agreement for barge transportation services for the coal requires that Kentucky Power pay demurrage charges at the rate of $100 per day per barge in the event that the coal is not unloaded within the contractually specified period.

[1] Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale.

Kentucky Power states that it sought to negotiate an agreement with Trafigura and RWE Trading whereby the coal scheduled for delivery to the Mitchell station would be applied to "satisfy" Appalachian Power's obligations under agreements it had with Trafigura and RWE Trading. However, when an agreement could not be reached, Kentucky Power assigned the deliveries to Appalachian Power. As a result of the assignment, Appalachian Power was invoiced by Trafigura and RWE Trading for the deliveries, and Appalachian Power paid the two suppliers directly for the coal deliveries.

Kentucky Power states that the contract price for the assigned coal deliveries was slightly less than the $61.35 per ton market price at the time of the assignments. As a result, the assignments to Appalachian Power were made at $11,531.85 less than the higher of cost or market. By making the assignment, Kentucky Power was able to avoid $13,000 in demurrage costs. Netting the $11,531.85 market differential with the $13,000 in avoided demurrage costs yields a net benefit to Kentucky Power of $1,468.15.[2]

Kentucky Power states that because it did not sell the coal deliveries to Appalachian Power, and did not receive payments from Appalachian Power, it is not clear whether the assignments are governed by KRS 278.2207(1)(a). But to the extent that the Commission concludes that they are governed by the statute, Kentucky Power states that the assignments were made at "reasonable pricing" as required by the statue. Kentucky Power argues that, absent the granting of the requested deviation, KRS 278.2207 may require the deliveries be assigned at the higher market price.

[2] This amount represents Kentucky Power's 50 percent interest in the net benefit.

DISCUSSION AND FINDINGS

Based on a review of the record and being otherwise sufficiently advised, the Commission finds that Kentucky Power's assignment of the coal deliveries to Appalachian Power is governed by KRS 278.2207 and that Kentucky Power's request for a deviation from KRS 278.2207 in connection with the assignment should be granted.

KRS 278.2207(1)(a) states:

> Services and products provided to an affiliate by the utility pursuant to a tariff shall be at the tariffed rate, with nontariffed items priced at the utility's fully distributed cost but in no event less than market, or in compliance with the utility's existing USDA, SEC, or FERC approved cost allocation methodology.

The Commission finds that Kentucky Power's assignment of the coal deliveries to Appalachian Power constitutes the provision of a non-tariffed product and/or service by Kentucky Power to Appalachian Power; therefore, the transaction is governed by the statute.

KRS 278.2207(2) provides that a utility may request a deviation from KRS 278.2207 for a particular transaction or class of transactions. In requesting the deviation for the assignment to Appalachian Power, Kentucky Power has the burden of demonstrating that the requested pricing is reasonable. Kentucky Power has shown in its application that the deliveries were assigned to Appalachian Power at Kentucky Power's cost and that Kentucky Power's cost was slightly less than the market price. Due to the minor differences between Kentucky Power's cost and market price, the Commission finds that the requested pricing is reasonable. In addition, Kentucky Power has shown that it experienced a net benefit of $1,468.15 due to the avoidance of

$13,000 in demurrage costs. Therefore, because of this net benefit and the reasonable pricing of the assignment to Appalachian Power, the Commission finds that the deviation is in the public interest and should be granted.

IT IS THEREFORE ORDERED that Kentucky Power's request for a deviation from KRS 278.2207 in connection with the assignment by Kentucky Power to Appalachian Power Company of seven deliveries of coal at Kentucky Power's cost is granted.

By the Commission

ENTERED
DEC 16 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

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