

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
POWER COMPANY FOR THE SIX-MONTH)	2014-00052
BILLING PERIOD ENDING DECEMBER 31, 2013)	

ORDER

On March 6, 2014, the Commission initiated a six-month review of Kentucky Power Company's ("Kentucky Power") environmental surcharge¹ as billed to customers for the six-month period July 1, 2013, to December 31, 2013.² Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable pursuant to KRS 278.183(1).

The Commission issued a procedural schedule on March 6, 2014, that provided for discovery, the filing of prepared testimony and intervenor testimony. Kentucky Power filed prepared testimony and responded to requests for information from

¹ Kentucky Power was authorized to implement an environmental surcharge in Case No. 1996-00489, The 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 Waste and By-Products (Ky. PSC May 27, 1997).

² Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings from July 2013 through December 2013 are based on costs incurred from May 2013 through October 2013.

Commission Staff. On May 22, 2014, an informal conference was held at the Commission's offices to discuss the issues in this case. There were no parties requesting intervenor status to this proceeding. On July 10, 2014, Kentucky Power filed a request that this case be submitted for decision by the Commission on the record, stating that there are no material issues of fact warranting hearing in this matter. Since there are no intervenors in this case and a hearing is not necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

SURCHARGE ADJUSTMENT

The March 6, 2014 Order initiating this case indicated that, since the period under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. Kentucky Power states that it had a net over-recovery of its environmental costs during the expense months of May 2013 through October 2013 in the amount of \$14,326.³ It proposes that the net over-recovery be refunded by decreasing the total jurisdictional environmental surcharge amount by a one-time adjustment of \$14,326 in its first monthly environmental surcharge filing following the Commission's decision in this proceeding.⁴

Having reviewed the record, the Commission finds Kentucky Power's calculation of a net over-recovery of \$14,326 to be reasonable. The Commission does not agree with Kentucky Power's proposal to refund the net over-recovery in the first month following the issuance of an order in this matter. The Stipulation and Settlement

³ Direct Testimony of Amy J. Elliott on Behalf of Kentucky Power Company, filed March 28, 2014, p. 2.

⁴ *Id.*, p. 5.

Agreement (“Settlement Agreement”) in Case No. 2012-00578⁵ provides that effective January 1, 2014, the Environmental Surcharge factor will be maintained and fixed at zero percent until new base rates are set by the Commission. In Case No. 2013-00325,⁶ the Commission, citing the terms of the Settlement Agreement, determined that the environmental surcharge factor would be established at zero percent and denied Kentucky Power recovery of the under-recovery it had determined in that case. While the Commission agrees with Kentucky Power’s calculation of an over-recovery of \$14,326, it believes the terms of the Settlement Agreement preclude any refund to customers.

Kentucky Power states that the average residential customer’s monthly usage for this review period was 1,103 kilowatt hours (“kWh”).⁷ Kentucky Power calculates that for a residential customer using 1,103 kWh per month, the impact of the over-recovery, if the difference had been incorporated into the December 2013 bill, would have been to decrease the average-usage residential bill by approximately \$0.05.⁸

⁵ 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 Station and Associated 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 Rulings; (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 Nov. 22, 2013).

⁶ Case No. 2013-00325, 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, 2013 (Ky. PSC Apr. 29, 2014).

⁷ Kentucky Power response to Commission Staff’s First Request for Information (“Staff’s First Request”), Item 8.

⁸ *Id.*

RATE OF RETURN

In Case No. 1996-00489, the Commission found that the debt portion of Kentucky Power's weighted average cost of capital should be reviewed and reestablished during each six-month review case, and that the rate of return on common equity would remain fixed and subject to review during the two-year environmental surcharge reviews. The weighted average cost of capital constitutes the rate of return applicable to Kentucky Power's environmental compliance rate base.⁹

Kentucky Power provided the outstanding balances for its long-term debt, short-term debt, accounts receivable financing, and common equity as of October 31, 2013, the last expense month of the review period. It also provided the blended interest rates for the long-term debt, short-term debt, and accounts receivable financing as of October 31, 2013.¹⁰ Using this information, along with the currently approved 10.50 percent return on equity,¹¹ Kentucky Power calculated a weighted average cost of capital, before income tax gross-up, of 8.03 percent.¹² Kentucky Power also provided its updated income tax gross-up factor of 1.5487,¹³ reflecting the methodology approved in Case No. 2005-00068.¹⁴

⁹ Case No. 1996-00489, p. 26. This weighted average cost of capital is applied only to the environmental compliance rate base associated with plant installed at Kentucky Power's Big Sandy generating units.

¹⁰ Kentucky Power response to Staff's First Request, Item 3, p. 2 of 19.

¹¹ Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Electric Rates (Ky. PSC Jun. 28, 2010).

¹² Kentucky Power response to Staff's First Request, Item 3, p. 1 of 19.

¹³ *Id.*, p. 17 of 19.

¹⁴ Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Oct. 17, 2005).

The Commission has reviewed Kentucky Power's determination of its weighted average cost of capital and finds the 8.03 percent calculation to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor of 1.5487 and finds that it is consistent with the approach approved in Case No. 2005-00068. Therefore, the Commission finds that the weighted average cost of capital of 8.03 percent and the income tax gross-up factor of 1.5487, which produce an overall grossed-up return of 10.58 percent,¹⁵ should be used in all monthly environmental surcharge filings subsequent to the date of this Order. Since the terms of the Settlement Agreement in Case No. 2012-00578 require Kentucky Power to maintain the environmental surcharge factor at zero percent until changed by the Commission, Kentucky Power's customers will not be impacted by updating its weighted average cost of capital.

OTHER ITEMS

Kentucky Power proposed revisions to the emissions allowance inventory forms in its monthly environmental surcharge filings. The proposed changes to ES Forms 3.11, 3.12A, and 3.12B simplify the format by removing unnecessary information from the form. The Commission has reviewed and finds reasonable Kentucky Power's recommendation to update the monthly environmental surcharge reports for the changes as stated herein.

Kentucky Power determined that corresponding adjustments proposed to environmental costs in this proceeding and in the previous review, Case No. 2013-00325, were not made to the environmental costs assigned to non-associated utilities in determining the System Sales Adjustment Factor. Kentucky Power determined that at

¹⁵ Kentucky Power response to Staff's First Request, Item 3, p. 17 of 19.

the 60 percent sharing level, the net impact of the adjustments would result in a charge to customers of \$197,769. Per the Settlement Agreement in Case No. 2012-00578, effective January 1, 2014, Kentucky Power is to set and maintain the System Sales Adjustment Factor to \$0.0000 mills/kWh until new base rates are set by the Commission. Accordingly, the terms of the Settlement Agreement preclude Kentucky Power from billing customers for the additional non-associated utilities environmental costs.

IT IS THEREFORE ORDERED that:

1. Pursuant to the terms of the Settlement Agreement in Case No. 2012-00578 and the Commission's Order in Case No. 2013-00325, Kentucky Power's environmental surcharge billing factor will remain at zero percent until changed by the Commission.

2. Kentucky Power shall not refund the net over-recovery of \$14,326 in the first month following the issuance of this order per ordering paragraph 1 and the terms of the Settlement Agreement in Case No. 2012-00578.

3. Kentucky Power shall use a weighted average cost of capital of 8.03 percent and a tax gross-up factor of 1.5487, a return on equity rate of 10.50 percent, and an overall grossed-up return of 10.58 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

4. Other than the net over-recovery of \$14,326 discussed in this Order, the charges and credits determined by Kentucky Power through its environmental surcharge for the period July 1, 2013, through December 31, 2013, are approved.

5. Kentucky Power shall not collect the net under-recovery of \$197,769 determined for System Sales Clause environmental costs assigned to non-associated utilities pursuant to the terms of the Settlement Agreement in Case No. 2012-00578, whereby Kentucky Power is to set and maintain the System Sales Adjustment Factor to \$0.0000 mills/kWh until new base rates are set by the Commission.

6. Kentucky Power's proposed changes to its monthly environmental surcharge reporting forms as described herein are approved, effective with the expense month in which the order is issued in this proceeding.

By the Commission

ENTERED
AUG 22 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2014-00052

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