

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF)	CASE NO.
KENTUCKY POWER COMPANY FROM)	2014-00225
NOVEMBER 1, 2013 THROUGH APRIL 30, 2014)	

ORDER

Pursuant to 807 KAR 5:056, Section 1(11), IT IS HEREBY ORDERED that:

1. Kentucky Power Company ("Kentucky Power") shall appear in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, on November 12, 2014, at 10:00 a.m., Eastern Standard Time, to submit itself to examination on the application of its Fuel Adjustment Clause ("FAC") from November 1, 2013, through April 30, 2014. Neither opening statements nor summaries of pre-filed testimony will be permitted.
2. Not less than seven days and no more than 21 days prior to the scheduled hearing, Kentucky Power shall publish in a newspaper of general circulation in each area in which it serves notice of the purpose, time, place, and date of the scheduled hearing.
3. Kentucky Power shall file with the Commission no later than November 7, 2014, proof of publication of its notice for the hearing.
4. The official record of the proceeding shall be by video only.
5. a. The information requested in the Appendix to this Order is due not later than 14 days from the date of this Order. Responses to requests for information

shall be appropriately bound, tabbed and indexed and 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 the 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. A 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 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.

6. Any party who wishes to file testimony in this proceeding or to request information from Kentucky Power may petition the Commission for a procedural schedule.

7. All documents that Kentucky Power filed with the Commission during the period under review pursuant to 807 KAR 5:056, Section 1(7) and (9), are incorporated by reference into the record of this proceeding.

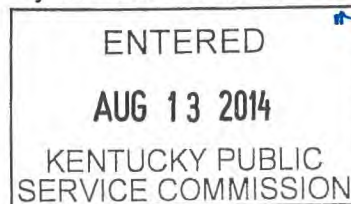
8. Unless otherwise ordered by the Commission, the electronic filing procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.

9. 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 that the party, or the party's authorized agent, possesses the facilities to receive electronic transmissions.

10. Any request for intervention must be received by September 8, 2014.

11. A person who submits a motion to intervene after September 8, 2014, and, upon a showing of good cause, is granted full intervention shall accept and abide by the existing procedural schedule.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00225 DATED **AUG 13 2014**

1. For the period from November 1, 2013, through April 30, 2014, list each vendor from whom coal was purchased and the quantities and the nature of each purchase (i.e., spot or contract). For the period under review in total, provide the percentage of purchases that were spot versus contract. For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

2. For the period from November 1, 2013, through April 30, 2014, list each vendor from whom natural gas was purchased for generation and the quantities and the nature of each purchase (i.e., spot or contract). For contract purchases, state whether the contract has been filed with the Commission. If no, explain why it has not been filed.

3. State whether Kentucky Power engages in hedging activities for its coal or natural gas purchases used for generation. If yes, describe the hedging activities in detail.

4. For each generating station or unit for which a separate coal pile is maintained, state, for the period from November 1, 2013, through April 30, 2014, the actual amount of coal burned in tons, the actual amount of coal deliveries in tons, the total kWh generated, and the actual capacity factor at which the plant operated.

5. List all firm power commitments for Kentucky Power from November 1, 2013, through April 30, 2014, for (a) purchases and (b) sales. This list shall identify the

electric utility, the amount of commitment in MW, and the purpose of the commitment (i.e., peaking, emergency).

6. Provide a monthly billing summary of sales to all electric utilities for the period November 1, 2013, through April 30, 2014.

7. List Kentucky Power's scheduled, actual, and forced outages from November 1, 2013, through April 30, 2014.

8. List all existing fuel contracts categorized as long-term (i.e., one year or more in length). Provide the following information for each contract:

- a. Supplier's name and address;
- b. Name and location of production facility;
- c. Date when contract was executed;
- d. Duration of contract;
- e. Date(s) of each contract revision, modification, or amendment;
- f. Annual tonnage requirements;
- g. Actual annual tonnage received since the contract's inception;
- h. Percentage of annual requirements received during the contract's term;
- i. Base price in dollars per ton;
- j. Total amount of price escalations to date in dollars per ton; and
- k. Current price paid for coal under the contract in dollars per ton (i + j).

9. a. State whether Kentucky Power regularly compares the price of its coal purchases to those paid by other electric utilities.

b. If yes, state:

(1) How Kentucky Power's prices compare with those of other utilities for the review period. Include all prices used in the comparison in cents per MMbtu.

(2) The utilities that are included in this comparison and their locations.

10. State the percentage of Kentucky Power's coal, as of the date of this Order, that is delivered by:

a. Rail;

b. Truck; or

c. Barge.

11. a. State Kentucky Power's coal inventory level in tons and in number of days' supply as of April 30, 2014. Provide this information by generating station and in the aggregate.

b. Describe the criteria used to determine number of days' supply.

c. Compare Kentucky Power's coal inventory as of April 30, 2014, to its inventory target for that date for each plant and for total inventory.

d. If actual coal inventory exceeds inventory target by ten days' supply, state the reasons for excessive inventory.

e. (1) State whether Kentucky Power expects any significant changes in its current coal inventory target within the next 12 months.

(2) If yes, state the expected change and the reasons for this change.

12. a. State whether Kentucky Power has audited any of its coal contracts during the period from November 1, 2013, through April 30, 2014.

b. If yes, for each audited contract:

- (1) Identify the contract;
- (2) Identify the auditor;
- (3) State the results of the audit; and
- (4) Describe the actions that Kentucky Power took as a result of the audit.

13. a. State whether Kentucky Power has received any customer complaints regarding its FAC during the period from November 1, 2013, through April 30, 2014.

b. If yes, for each complaint, state:

- (1) The nature of the complaint; and
- (2) Kentucky Power's response.

14. a. State whether Kentucky Power is currently involved in any litigation with its current or former coal suppliers.

b. If yes, for each litigation:

- (1) Identify the coal supplier;
- (2) Identify the coal contract involved;
- (3) State the potential liability or recovery to Kentucky Power;
- (4) List the issues presented; and
- (5) Provide a copy of the complaint or other legal pleading that

initiated the litigation and any answers or counterclaims. If a copy has previously been

filed with the Commission, provide the date on which it was filed and the case in which it was filed.

c. State the current status of all litigation with coal suppliers.

15. a. During the period from November 1, 2013, through April 30, 2014, have there been any changes to Kentucky Power's written policies and procedures regarding its fuel procurement?

b. If yes:

(1) Describe the changes;

(2) Provide the written policies and procedures as changed;

(3) State the date(s) the changes were made; and

(4) Explain why the changes were made.

c. If no, provide the date Kentucky Power's current fuel procurement policies and procedures were last changed, when they were last provided to the Commission, and identify the proceeding in which they were provided.

16. a. State whether Kentucky Power is aware of any violations of its policies and procedures regarding fuel procurement that occurred prior to or during the period from November 1, 2013, through April 30, 2014.

b. If yes, for each violation:

(1) Describe the violation;

(2) Describe the action(s) that Kentucky Power took upon discovering the violation; and

(3) Identify the person(s) who committed the violation.

17. Identify and explain the reasons for all changes in the organizational structure and personnel of the departments or divisions that are responsible for Kentucky Power's fuel procurement activities that occurred during the period from November 1, 2013, through April 30, 2014.

18. a. Identify all changes that Kentucky Power has made during the period under review to its maintenance and operation practices that also affect fuel usage at Kentucky Power's generation facilities.

b. Describe the impact of these changes on Kentucky Power's fuel usage.

19. List each written coal-supply solicitation issued during the period from November 1, 2013, through April 30, 2014.

a. For each solicitation, provide the date of the solicitation, the type of solicitation (contract or spot), the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, state the number of vendors to whom the solicitation was sent, the number of vendors who responded, and the selected vendor. Provide the bid tabulation sheet or corresponding document that ranked the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

20. List each oral coal-supply solicitation issued during the period from November 1, 2013, through April 30, 2014.

a. For each solicitation, state why the solicitation was not written, the date(s) of the solicitation, the quantities solicited, a general description of the quality of coal solicited, the time period over which deliveries were requested, and the generating unit(s) for which the coal was intended.

b. For each solicitation, identify all vendors solicited and the vendor selected. Provide the tabulation sheet or other document that ranks the proposals. (This document should identify all vendors who made offers.) State the reasons for each selection. For each lowest-cost bid not selected, explain why the bid was not selected.

21. a. List all intersystem sales during the period under review in which Kentucky Power used a third party's transmission system.

b. For each sale listed above:

(1) Describe how Kentucky Power addressed, for FAC reporting purposes, the cost of fuel expended to cover any line losses incurred to transmit its power across the third party's transmission system; and

(2) State the line-loss factor used for each transaction and describe how that line-loss factor was determined.

22. Describe each change that Kentucky Power made to its methodology for calculating intersystem sales line losses during the period under review.

23. State whether, during the period under review, Kentucky Power has solicited bids for coal with the restriction that it was not mined through strip mining or mountaintop removal. If yes, explain the reasons for the restriction on the solicitation, the quantity in tons and price per ton of the coal purchased as a result of this

solicitation, and the difference between the price of this coal and the price it could have obtained for the coal if the solicitation had not been restricted.

24. Provide a detailed discussion of any specific generation efficiency improvements Kentucky Power has undertaken during the period under review.

25. State whether any PJM Interconnection, LLC costs were included in Kentucky Power's monthly FAC filings during the period under review. If yes, provide the amount of the costs by month and by type of cost.

26. Explain how purchase power costs are accounted for in the calculation of the FAC when Kentucky Power experiences a planned generation outage and purchases power to meet load (i.e., is the entire amount of the purchase power recorded in the calculation, or is there a limit as to the amount recorded?). If there is a limit, explain the basis for the limitation and how it is calculated. If there is no limit, explain the basis for including 100 percent of the purchase power costs.

27. Explain how purchase power costs are accounted for in the calculation of the FAC when Kentucky Power is not experiencing a generation outage but must purchase power in order to meet demand (i.e., is the entire amount of the purchase power recorded in the calculation, or is there a limit as to the amount recorded?). If there is a limit, explain the basis for the limitation and how it is calculated. If there is no limit, explain the basis for including 100 percent of the purchase power costs.

28. State whether it was anticipated that, with the transfer of 50 percent of the Mitchell station to Kentucky Power, fuel costs to native-load customers would decrease. If a decrease was anticipated but has not materialized, provide an explanation.

29. Provide Kentucky Power's definition of "no load costs."

a. Explain in detail how these costs are calculated for each generating unit.

b. Explain how the “no load costs” are allocated between native-load sales and off-system sales each hour.

c. State the length of time “no load costs” have been allocated in this manner.

d. By month and generating unit, provide the amount of “no load costs” that have been allocated to native-load customers from November 1, 2012, through April 30, 2014.

e. If “no load costs” have been allocated 100 percent to native-load customers, state the amount, by month, that would have been allocated to native-load customers if “no load costs” had been considered with all other fuel costs and allocated according to economic dispatch.

f. State whether any “no load costs” are being recovered through base rates. If yes, provide the amount by generating unit that was included in the test year in the utility’s most recent adjudicated base rate case and state whether the costs are being double-recovered through the FAC.

g. State whether “no load costs” are discussed in Kentucky Power’s Cost Allocation Manual. If yes, provide excerpts of the manual wherein it is discussed.

h. For each month under the review period and for each generating unit (Big Sandy units 1 and 2, Rockport units 1 and 2, and Mitchell units 1 and 2), provide the following:

(1) The total MWh generated;

(2) The dollar amount of fuel costs allocated to native-load customers;

(3) The amount of MWh allocated to the native-load customers;

(4) The dollar amount of fuel costs allocated to off-system sales;

(5) The amount of MWh allocated to off-system sales;

(6) The percent of each unit's MWh allocated to native-load customers; and

(7) Each unit's "no load costs".

i. During the years that the American Electric Power Interconnection Agreement was in place, provide the dates when changes were made in how fuel costs were allocated between native-load and off-system sales and describe the changes made.

j. State whether Kentucky Power has discussed "no load costs" with the Commission prior to the meeting held on June 26, 2014, at the Commission's offices. If yes, identify the proceeding.

30. State whether Kentucky Power outsources coal handling or whether coal handling is performed by Kentucky Power employees, and explain how coal-handling costs are accounted for in the calculation of the FAC.

31. State whether all long-term fuel transportation contracts have been filed with the Commission. If any contracts have not been filed, provide a copy.

32. For each generating station:

a. State how often coal-pile surveys are undertaken;

b. Explain how any resulting adjustment affects fuel costs in the calculation of the FAC;

c. Provide the costs of performing a coal-pile survey at each of the generating stations and explain how the costs are accounted for; and

d. Provide a copy of all internal accounting policies related to coal-pile survey adjustments and the date the policies were last revised.

33. Refer to Kentucky Power's "Standard Fuel Adjustment Clause Backup Filing" filed on April 15, 2014, for the expense month of February 2014. This filing shows a coal-pile survey adjustment of \$457,588.53 for the Mitchell Station which resulted in an increase in fuel costs.

a. Provide the date the survey adjustment was undertaken.

b. Provide the date the previous survey adjustment was undertaken.

c. Explain why the physical inventory was not taken on the date the change in control of the Mitchell Station occurred.

d. Provide the total amount of the adjustment among all owners of the Mitchell Station and explain how the allocation of \$457,588.53 to Kentucky Power was calculated.

e. In past filings, Kentucky Power assigned a cost of \$1 to coal-pile survey adjustments. Explain the reason for the change and state whether this change is in compliance with the internal accounting policy regarding coal pile adjustments.

f. By month, for January through April 2014, provide the total kWh generated at the Mitchell Station along with the total kWh and percentage allocated to Kentucky Power. If the percentages are something other than 50 percent, and if the

Kentucky Power's financial reports reflect 50 percent of the costs associated with Mitchell Station, both investment and operating (less fuel) and maintenance expenses, explain why it is appropriate for Kentucky Power's financial reports to reflect something other than 50 percent of the Mitchell generating station generation.

g. By month for the review period, provide the total kWh generated at the Rockport generating station along with the total kWh and percentage allocated to Kentucky Power.

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