

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION	)	
OF THE FUEL ADJUSTMENT CLAUSE OF	)	
KENTUCKY POWER COMPANY FROM	)	CASE NO.
NOVEMBER 1, 2012 THROUGH OCTOBER	)	2014-00450
31, 2014	)	

ORDER

Pursuant to 807 KAR 5:056, Section 1(12), 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 April 7, 2015, at 10:00 a.m., Eastern Daylight Time, to submit itself to examination on the application of its Fuel Adjustment Clause ("FAC") from November 1, 2012, to October 31, 2014.
2. Not less than seven days nor 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 provides service notice of the purpose, time, place, and date of the scheduled hearing.
3. Kentucky Power shall file with the Commission no later than April 3, 2015, proof of publication of its notice for the hearing.
4. The Commission adopts the procedural schedule set forth in Appendix A to this Order, which is incorporated by reference herein.
5. a. Kentucky Power shall file with the Commission, on or before February 20, 2015, its responses to all requests for information listed in Appendix B. A

copy of the responses to requests for information submitted in paper format, as required under 807 KAR 5:001, Section 8(3), 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.

e. Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

f. A party filing a document containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that personal information cannot be read.

6. Kentucky Power shall, on or before February 20, 2015, file with the Commission written direct testimony of the witnesses Kentucky Power intends to call at the scheduled hearing in this matter. The written direct testimony of these witnesses shall address, *inter alia*, the following issues:

a. The reasonableness of Kentucky Power's fuel procurement practices during the review period;

b. Coal suppliers' adherence to contract delivery schedules during the review period;

c. Kentucky Power's efforts to ensure coal suppliers' adherence to contract delivery schedules during the review period;

d. Kentucky Power's efforts to maintain the adequacy of its coal supplies in light of any coal supplier's inability or unwillingness to make contract coal deliveries;

e. Any changes in coal market conditions that occurred during the review period or that Kentucky Power expects to occur within the next two years that have significantly affected or will significantly affect Kentucky Power's coal procurement practices;

f. Any changes in the wholesale electric power market that occurred during the review period or that Kentucky Power expects to occur within the next two

years that have significantly affected or will significantly affect Kentucky Power's electric power procurement practices; and

g. The regional transmission organization code charges and credits included in the FAC calculation and an explanation for why each is appropriate for inclusion.

7. At the scheduled hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

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. Intervenors may serve interrogatories and requests for production of documents upon Kentucky Power in accordance with the procedural schedule set forth in Appendix A.

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

12. The records of Case Nos. 2013-00261,<sup>1</sup> 2013-0444,<sup>2</sup> and 2014-00225<sup>3</sup> are incorporated by reference into this proceeding.

13. Any intervening party that intends to file testimony in this matter shall advise the Commission in writing of its intent to do so and shall, no later than March 23, 2015, move for modification of the procedural schedule, if necessary, to permit the filing of its testimony.

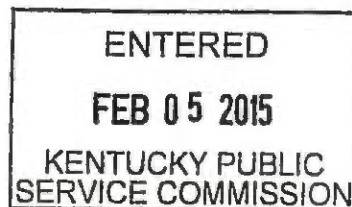
14. A person who submits a motion to intervene after February 26, 2015, and, upon a showing of good cause, is granted full intervention shall accept and abide by the existing procedural schedule.

15. Motions for extensions of time shall be made in writing and will be granted only upon a showing of good cause.

By the Commission

ATTEST:

  
Executive Director



<sup>1</sup> Case No. 2013-00261, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2012 through April 30, 2013* (Ky. PSC Nov. 22, 2013).

<sup>2</sup> Case No. 2013-00444, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from May 1, 2013 through October 31, 2013* (Ky. PSC June 2, 2014).

<sup>3</sup> Case No. 2014-00225, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2013 through April 30, 2014* (Ky. PSC Jan. 22, 2015).

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00450 DATED **FEB 05 2015**

Kentucky Power shall file with the Commission the direct testimony of its witnesses in verified prepared form and the responses to requests for information set forth in Appendix B no later than .....02/20/2015

All requests for intervention shall be filed by.....02/26/2015

Intervenors and Commission Staff may serve interrogatories and requests for production of documents upon Kentucky Power no later than.....03/06/2015

Kentucky Power shall file with the Commission responses to interrogatories and requests for production of documents no later than.....03/20/2015

Last day for Kentucky Power to publish notice of hearing date.....03/31/2015

Public Hearing is to begin at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses .....04/07/2015

## APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00450 DATED FEB 05 2015

1. If a change in the base fuel cost is proposed, state the month to be used as the base period (b). If the base period results in a fuel cost other than one representative of current costs as prescribed by 807 KAR 5:056, Section 1(2), explain why this base period was selected. If no change is proposed, include an explanation of the reason(s) Kentucky Power believes the current base period fuel cost should remain unchanged.

2. Provide a calculation of the fossil fuel costs F(b) that Kentucky Power proposes to use to calculate the base period fuel cost. This calculation shall show each component of F(b) as defined by 807 KAR 5:056. Explain why the fuel cost in the selected base period is representative of the level of fuel cost currently being experienced by Kentucky Power.

3. Provide a schedule showing each component of sales as defined by 807 KAR 5:056 in the selected base period (b). Explain why Kentucky Power believes that the sales in the selected base period (b) are representative of the level of kWh sales that Kentucky Power will derive from the level of fuel cost incurred during the selected base period (b).

4. Provide a schedule showing the calculation of Kentucky Power's proposed increase or decrease in its base fuel cost per kWh to be incorporated into its base rate.

5. Provide Kentucky Power's most recent projected fuel requirements for the years 2015 and 2016 in tons and dollars.

6. Provide Kentucky Power's most recent sales projections for the years 2015 and 2016 in kWh and dollars.

7. Provide separately the amounts of power purchases used in the calculation of sales provided in response to Item 3.

8. Provide separately the amounts of intersystem power sales used in the calculation of sales provided in response to Item 3.

9. Provide the planned maintenance schedule for each of Kentucky Power's generating units for the years 2015 and 2016.

10. For the years ending October 31, 2013, and October 31, 2014, provide:

a. Maximum annual system demand; and

b. Average annual demand.

11. List all firm power commitments for Kentucky Power for the years 2015 and 2016 for (a) purchases and (b) sales. This list shall identify the other party (buyer or seller), the amount of commitment in MW, and the purpose of the commitment (e.g., peaking, emergency).

12. Provide a monthly billing summary for all sales to all electric utilities for the period May 1, 2014, through October 31, 2014.

13. a. Provide a schedule of the calculation of the 12-month average line loss by month for November 2012 through October 2014.

b. Describe the actions that Kentucky Power has taken to reduce line loss during this period.

14. List Kentucky Power's scheduled, actual, and forced outages between May 1, 2014, and October 31, 2014.



15. For each existing fuel contract categorized as long-term (i.e., one year or more in length), provide:

- 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. Percent 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)).

16. Provide a schedule of the present and proposed rates that Kentucky Power seeks to change pursuant to 807 KAR 5:056, shown in comparative form.

17. Provide a statement showing by cross-outs and italicized inserts all proposed changes in rates. A copy of the current tariff may be used.

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

b. If the response is yes, state:

(1) The utilities that are included in this comparison and their

locations; and

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

19. For the period under review by generating station, list the percentages of Kentucky Power's coal delivered by:

- a. Rail;
- b. Truck; and
- c. Barge.

20. For each generating station, state the methods of coal delivery currently available.

21. a. State Kentucky Power's coal inventory level in tons and in number of days' supply as of October 31, 2014. Provide this information by generating station and in the aggregate.

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

c. Compare Kentucky Power's coal inventory as of October 31, 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 the additional inventory.

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

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

22. a. State whether Kentucky Power has audited any of its coal contracts during the period from May 1, 2014, to October 31, 2014.

b. If the response is 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.

23. a. State whether Kentucky Power has received any customer complaints regarding its FAC during the period from May 1, 2014, to October 31, 2014.

b. If the response is yes, for each complaint, state:

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

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

b. If the response is 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.

25. List each written coal supply solicitation issued during the period May 1, 2014, to October 31, 2014.

a. For each solicitation, provide the date of the 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 ranks the proposals. (This document shall 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.

26. List each oral solicitation for coal supplies issued during the period from May 1, 2014, to October 31, 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 bid tabulation sheet or other document that ranks the proposals.

(This document shall 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.

27. For the period from May 1, 2014, to October 31, 2014, list each vendor from whom coal was purchased and the quantity and nature of each purchase (e.g., 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 the response is no, explain why it has not been filed.

28. For the period from May 1, 2014, to October 31, 2014, list each vendor from whom natural gas was purchased for generation and the quantity and nature of each purchase (e.g., 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 the response is no, explain why it has not been filed.

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

30. For each generating station or unit for which a separate coal pile is maintained, state for the period from May 1, 2014, to October 31, 2014, the actual amount of coal burned in tons, actual amount of coal deliveries in tons, total kWh generated, and actual capacity factor at which the plant operated.

31. a. During the period from May 1, 2014, to October 31, 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) State the date(s) the changes were made;
- (3) Explain why the changes were made; and
- (4) Provide the written policies and procedures as changed.

c. If no, provide the date when 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.

32. 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 May 1, 2014, to October 31, 2014.

b. If the response is 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.

33. 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 May 1, 2014, to October 31, 2014.

34. a. Identify all changes that Kentucky Power made during the period from May 1, 2014, to October 31, 2014, to its maintenance and operation practices that affect fuel usage at Kentucky Power's generation facilities.

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

35. a. List all intersystem sales during the period from May 1, 2014, to October 31, 2014, 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 such line-loss factor was determined.

36. Describe each change that Kentucky Power made to its methodology for calculating intersystem sales line losses during the period from May 1, 2014, to October 31, 2014.

37. State whether Kentucky Power has solicited bids for coal with the restriction that it was not mined through strip mining or mountaintop removal. If the response is 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.

38. By month, provide the specific PJM Interconnection, Inc. codes and amounts for each code that were included in Kentucky Power's monthly FAC filings during the period from November 1, 2012, to October 31, 2014.

39. List Kentucky Power's generating units in economic dispatch order. State whether Kentucky Power's generating units were operated in economic dispatch order during the period under review. If the response is no, explain.

40. Refer to the letter addressed to the Commission's executive director filed by Kentucky Power on January 9, 2015, (attached as Exhibit C). Page 2 of the letter states, "Most importantly, the change in accounting treatment of marginal line losses has no financial impact on Kentucky Power's customers." State whether the change in accounting treatment has an impact on the calculation of the FAC. If yes, explain.

41. By month, provide the amount of "no load costs" related to the Mitchell Generating Station that were included in the FAC calculation for the period May 1, 2014, through October 31, 2014.



APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2014-00450 DATED

**FEB 05 2015**



Kentucky Power  
101A Enterprise Drive  
P O Box 5190  
Frankfort, KY 40602-5190  
KentuckyPower.com

RECEIVED

JAN 9 2015

PUBLIC SERVICE  
COMMISSION

HAND DELIVERED

January 9, 2015

Jeff R. Derouen, Executive Director  
Public Service Commission of Kentucky  
P. O. Box 615  
211 Sower Boulevard  
Frankfort, KY 40602-0615

Attention: Chris Whelan

RE: The Standard Fuel Adjustment Clause

Dear Ms. Whelan,

Kentucky Power wishes to advise the Commission that it has begun recording its transmission marginal line loss charges and credits in FERC 555 accounts rather than FERC 447 accounts.

Due to the termination of the AEP- East System Pool and the resultant fact that Kentucky Power is now stand-alone, the Company has determined that it is more appropriate to record the marginal line loss credits and expenses in expense (555) accounts rather than revenue (447) accounts.

PJM marginal loss charges, previously recorded in account 4470207, will be recorded in account 5550326; PJM marginal line loss credits, previously recorded in account 4470208, will be recorded in account 5550327. The change in accounting treatment became effective with the December 2014 expense month, with reclassifications made for October and November 2014.

Marginal line loss charges and credits will continue to be calculated in the same fashion as was described in Mr. Wagner's testimony, and as was authorized by the Commission's June 12, 2008 Order, in Case No. 2007-00522. Marginal line losses are still financially settled in the form of charges and credits on the PJM bill; the reclassification will not result in a different level of line loss charges and credits than would result if the marginal line loss charges and credits continued to be recorded in 447 accounts. The only change is in the account number to which the Company records the charges and credits.

RECEIVED

JAN 12 2015

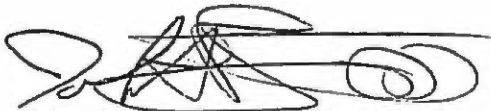
FINANCIAL ANA

This change in accounting treatment returns the Company's accounting of marginal line losses to the more traditional method of including certain fuel expenses in 555 expense accounts.

Most importantly, the change in accounting treatment of marginal line losses has no financial impact on Kentucky Power's customers.

Please feel free to contact me at 502-696-7010 with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'John A. Rogness III', with a large, stylized flourish extending to the right.

John A. Rogness III  
Director, Regulatory Services

\*Amy J Elliott  
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101 A Enterprise Drive  
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Frankfort, KY 40602

\*Honorable Mark R Overstreet  
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