

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE APPLICATION)	
OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY)	CASE NO.
POWER COMPANY FROM NOVEMBER 1, 2014)	2017-00001
THROUGH OCTOBER 31, 2016)	

ORDER

Pursuant to 807 KAR 5:056, the Commission, on February 6, 2017, established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the period from November 1, 2014, through October 31, 2016, and to determine the amount of fuel costs that should be included in its base rates.

In establishing this review, the Commission ordered Kentucky Power to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. Kentucky Power submitted this information on February 20, 2017, and filed responses to Commission Staff's second and third data requests on March 20, 2017, and April 7, 2017, respectively. A public hearing was held on April 18, 2017. On May 1, 2017, Kentucky Power filed its responses to the Commission's post-hearing data request. There are no intervenors in this proceeding.

Base Fuel Cost

Kentucky Power's current base fuel cost is \$.02725 per kilowatt-hour ("kWh") based on the month of October 2015. Kentucky Power proposes that the current base

fuel cost remain unchanged.¹ Kentucky Power states that from November 2014 through October 2015, its Big Sandy unit 1 burned higher-cost low sulfur coal.² In November 2015, Big Sandy unit 1 ceased operating as a coal-fired unit, and in June 2016, Big Sandy unit 1 returned to service as a natural gas-fired unit. Kentucky Power states that for the five months Big Sandy unit 1 operated during the review period, the actual fuel cost for the unit was 2.997 cents per kWh, or on average, .272 cents per kWh above the current base fuel rate.³ Kentucky Power states that its fuel-cost forecast for 2017 and 2018 is 2.496 cents per kWh and 2.525 cents per kWh respectively.⁴ Kentucky Power asserts that since the current base fuel rate lies at the midpoint between its fuel forecast and the average actual fuel costs while Big Sandy unit 1 was operating as a natural gas unit, leaving the base fuel rate unchanged will minimize the magnitude of the difference between actual fuel costs and the base fuel rate.⁵

In establishing the appropriate level of base fuel cost to be included in Kentucky Power's rates, the Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by Kentucky Power. An analysis of Kentucky Power's monthly fuel clause filings showed that the fuel cost billed for the review period ranged from a low of \$.01639 per kWh to a high of \$.03099

¹ Kentucky Power last made a change to the fuel cost included in base rates in Case No. 2014-00450, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2012 through October 31, 2014* (Ky. PSC Aug. 11, 2015).

² Response to the February 6, 2017 Request for Information, Item 1.

³ Direct Testimony of John A. Rogness at 6.

⁴ *Id.*

⁵ *Id.* at 8.

per kWh, with an average cost billed for the period of \$.02463 per kWh.⁶ Based upon its review, the Commission finds Kentucky Power's proposal to maintain its base period fuel cost at \$.02725 per kWh should be approved.

Peaking Unit Equivalent

A jurisdictional electric utility is only allowed to recover through the FAC the cost of power purchases up to the cost of its highest-cost unit, which for most utilities is a combustion turbine ("CT"). Because Kentucky Power does not own a CT, the Commission has authorized Kentucky Power to use a proxy of a typical General Electric single-cycle gas turbine when calculating its highest-cost unit.⁷ This calculation is referred to as the "peaking unit equivalent" or PUE. In calculating its PUE, Kentucky Power uses the Platts Gas Daily Columbia Gas Appalachian Price ("Platts Gas Prices"). As previously stated, Big Sandy unit 1 now operates as a natural gas unit. Since Big Sandy unit 1 is not a CT, Kentucky Power has been allowed to continue to use the PUE in calculating its highest-cost unit. During this proceeding, Kentucky Power was questioned as to its continued use of the Platts Gas Prices, given that Kentucky Power now purchases natural gas for Big Sandy unit 1. Kentucky Power stated that it would not be practicable to use the price paid for natural gas for Big Sandy unit 1 in the PUE

⁶ The amounts billed for certain months during the review period reflected the removal of, and/or refund of, "no load costs" related to the Mitchell Station. See Case Nos. 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) and 2014-00450, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2012 through October 31, 2014* (Ky. PSC Aug. 11, 2015).

⁷ Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC Oct. 3, 2002).

calculation.⁸ Kentucky Power states that the PUE is calculated hourly, and that Big Sandy unit 1 does not run every day in every month. Kentucky Power also states that: “[t]he gas prices published in Platts Gas Daily are based on surveys and other reported data, and are intended to be representative of market prices in the particular markets for which *Platts Gas Daily* publishes prices.”⁹ Kentucky Power argues that even if Big Sandy unit 1 is operated during the month, the natural gas price on the day(s) it operates may not reflect the price of natural gas (and therefore the cost of fuel) on the days power is purchased.¹⁰ Furthermore, Kentucky Power states that the actual price paid for natural gas to operate Big Sandy unit 1 includes other non-commodity costs such as transportation costs and related Federal Energy Regulatory Commission tariffed charges associated with Kentucky Power’s firm transportation contract.

Because Kentucky Power’s Big Sandy unit 1 and a CT operate differently, and would likely operate at different times, the Commission accepts Kentucky Power’s proposal to continue using the Platts Gas Prices in its PUE calculation.

Power Purchases

In Case No. 2016-00001,¹¹ Kentucky Power informed the Commission that it made an error in calculating the amount of power purchases to be excluded for recovery through the FAC during the period November 1, 2014, through April 30, 2015. Kentucky Power

⁸ Kentucky Power’s Response to Commission Staff’s Second Request for Information, Item 2.

⁹ *Id.*

¹⁰ Kentucky Power’s Response to Commission Staff’s Third Request for Information, Item 2.

¹¹ Case No. 2016-00001, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from May 1, 2015 through October 31, 2015* (Ky. PSC July 7, 2016).

stated that, as a result of the error, it under-collected \$205,322.¹² In the final Order issued in that case, the Commission found that the \$205,322 under-collection for the period November 1, 2014, through April 30, 2015, fell outside of the then current review period and should be addressed in Kentucky Power's next two-year review proceeding.¹³ The Commission notes that the under-collection occurred over a four-month period, and therefore the under-collected amount should be recovered over a four-month period. Beginning with its first FAC filing following the date of this Order, Kentucky Power should be allowed to collect \$51,330.50 through its FAC each month for four months for a total of \$205,322.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. During the period under review, Kentucky Power has complied with the provisions of 807 KAR 5:056.
2. Kentucky Power's current base period fuel cost of \$.02725 per kWh should remain in effect.
3. The continued use of the base fuel cost of \$.02725 per kWh requires no transfer to or from Kentucky Power's base rates.

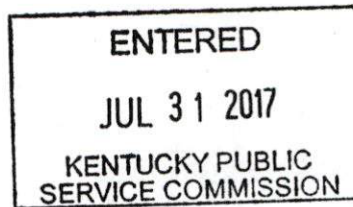
¹² See Case No. 2016-00001, Kentucky Power, Response to the Commission's February 5, 2016 Request for Information, Item 26.

¹³ *Id.*, Final Order at 4.

IT IS THEREFORE ORDERED that:

1. The charges and credits applied by Kentucky Power through the FAC for the period from November 1, 2014, through October 31, 2016, are approved.
2. Kentucky Power's continued use of the existing base fuel cost of \$.02725 per kWh is approved.
3. Kentucky Power shall be allowed to continue using the natural gas prices as published in *Platts Gas Daily* in its PUE calculation.
4. Beginning with its first FAC filing following the date of this Order, Kentucky Power is allowed to collect \$51,330.50 through its FAC each month for four months for a total of \$205,322.

By the Commission



ATTEST:



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