



**KENTUCKY  
POWER**

A unit of American Electric Power

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

RECEIVED

January 29, 2007

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PUBLIC SERVICE  
COMMISSION

Beth A. O' Donnell  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
P. O. Box 615  
Frankfort, KY 40602-0615

Re: Case No. 2006-00307 Environmental Surcharge Tariff

Dear Ms. O' Donnell:

Enclosed please find and accept for filing an original and three copies of the revised Tariff E.S. (Environmental Surcharge) Sheet Nos. 29-1, 29-2, 29-4 and 29-5 of Kentucky Power Company which are being filed pursuant to the Commission's Order of January 24, 2007 in Case No. 2006-00307.

Upon receipt and approval, please return a stamped copy of the tariff sheets to Errol K. Wagner, P. O. Box 5190, Frankfort, Kentucky 40601.

Sincerely,

Errol K. Wagner  
Director of Regulatory Services

**TARIFF E.S.**  
**(Environmental Surcharge)**

APPLICABLE.

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., S.G.S., M.G.S., M.G.S.-T.O.D., L.G.S., Q.P., C.I.P.-T.O.D., C.S.-I.R.P., M.W., O.L., and S.L.

RATE.

1. The environmental surcharge shall provide for monthly adjustments based on a percent of revenues equal to the difference between the environmental compliance costs in the base period as provided in Paragraph 3 below and in the current period according to the following formula:

$$\text{Monthly Environmental Surcharge Factor} = \frac{\text{Net KY Retail E(m)}}{\text{KY Retail R(m)}}$$

Where:

Net KY Retail E(m) = Monthly E(m) allocated to Kentucky Retail Customers, net of Over/ (Under) Recovery Adjustment; Allocation based on Percentage of Kentucky Retail Revenues to Total Company Revenues in the Expense Month.

(For purposes of this formula, Total Company Revenues do not include Non-Physical Revenues.)

KY Retail R(m) = Kentucky Retail Revenues for the Expense Month.

2. Monthly Environmental Surcharge Gross Revenue Requirement, E(m)

$$E(m) = CRR - BRR$$

Where:

CRR = Current Period Revenue Requirement for the Expense Month.

BRR = Base Period Revenue Requirement.

3. Base Period Revenue Requirement, BRR

BRR = The Following Monthly Amounts:

<u>Billing Month</u>	<u>Base Net Environmental Costs</u>
JANUARY	\$ 2,531,784
FEBRUARY	3,003,995
MARCH	2,845,066
APRIL	2,095,535
MAY	1,514,859
JUNE	1,913,578
JULY	2,818,212
AUGUST	2,342,833
SEPTEMBER	2,852,305
OCTOBER	2,181,975
NOVEMBER	2,598,522
DECEMBER	1,407,969
	<u>\$28,106,683</u>

(Continued on Sheet 29-2)

DATE OF ISSUE January 29, 2007 DATE EFFECTIVE Service rendered on and after January 24, 2007

ISSUED BY E.K. Wagner E.K. WAGNER DIRECTOR OF REGULATORY SERVICES FRANKFORT, KENTUCKY  
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**TARIFF E.S. (Cont'd)**  
**(Environmental Surcharge)**

**RATE (Cont'd)**

4. Current Period Revenue Requirement, CRR

$$CRR = [((RB_{KP(C)}) (ROR_{KP(C)}) / 12) + OE_{KP(C)} + [((RB_{IM(C)}) (ROR_{IM(C)}) / 12) + OE_{IM(C)}] (.15) - AS]$$

Where:

- RB<sub>KP(C)</sub> = Environmental Compliance Rate Base for Big Sandy.
- ROR<sub>KP(C)</sub> = Annual Rate of Return on Big Sandy Rate Base;  
Annual Rate divided by 12 to restate to a Monthly Rate of Return.
- OE<sub>KP(C)</sub> = Monthly Pollution Control Operating Expenses for Big Sandy.
- RB<sub>IM(C)</sub> = Environmental Compliance Rate Base for Rockport.
- ROR<sub>IM(C)</sub> = Annual Rate of Return on Rockport Rate Base;  
Annual Rate divided by 12 to restate to a Monthly Rate of Return.
- OE<sub>IM(C)</sub> = Monthly Pollution Control Operating Expenses for Rockport.
- AS = Net proceeds from the sale of SO<sub>2</sub> emission allowances, ERCs, and NOx emission allowances, reflected in the month of receipt. The SO<sub>2</sub> allowance sales can be from either EPA Auctions or the AEP Interim Allowance Agreement Allocations.

"KP(C)" identifies components from the Big Sandy Units – Current Period, and "IM(C)" identifies components from the Indiana Michigan Power Company's Rockport Units – Current Period.

The Rate Base for both Kentucky Power and Rockport should reflect the current costs associated with the 1997 Plan and the 2003 Plan. The Rate Base for Kentucky Power should also include a cash working capital allowance based on the 1/8 formula approach, due to the inclusion of Kentucky Power's accounts receivable financing in the capital structure and weighted average cost of capital. The Operating Expenses for both Kentucky Power and Rockport should reflect the current operating expenses associated with the 1997 Plan, the 2003 Plan, the 2005 Plan and the 2007 Plan.

The Rate of Return for Kentucky Power is 10.5% rate of return on equity as authorized by the Commission in its March 14, 2006 Order in Case No. 2005-00341 at page 12.

(Cont'd on Sheet 29-3)

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**TARIFF E.S. (Cont'd)**  
**(Environmental Surcharge)**

- (g) costs associated with maintaining approved pollution control equipment including material and contract labor (excluding plant labor)
- (r) the Company's share of the pool Capacity costs associated with the following:
- Amos Unit No. 3 CEMS, Low NO<sub>x</sub> Burners, SCR, FGD, Landfill, Coal Blending Facilities and SO<sub>3</sub> Mitigation
  - Cardinal Unit No 1 CEMS, Low NO<sub>x</sub> Burners, SCR, Catalyst Replacement, FGD, Landfill and SO<sub>3</sub> Mitigation
  - Gavin Plant SCR and SCR Catalyst Replacement
  - Gavin Unit No 1 and 2 Low NO<sub>x</sub> Burners and SO<sub>3</sub> Mitigation
  - Kammer Unit Nos 1, 2 and 3 CEMS, Over Fire Air and Duct Modification
  - Mitchell Unit Nos 1 and 2 Water Injection, Low NO<sub>x</sub> burners, Low NO<sub>x</sub> burner Modification, SCR, FGD, Landfill, Coal Blending Facilities and SO<sub>3</sub> Mitigation
  - Mitchell Plant Common CEMS, Replace Burner Barrier Valves and Gypsum Material Handling Facilities
  - Muskingum River Unit No 1 Low NO<sub>x</sub> Ductwork, Over Fire Air, Over Fire Air Modification, Water Injection and Water Injection Modification
  - Muskingum River Unit No 2 Low NO<sub>x</sub> Ductwork, Over Fire Air, Over Fire Air Modification and Water Injection
  - Muskingum River Unit No 3 Over Fire Air, Over Fire Air Modification with NO<sub>x</sub> Instrumentation
  - Muskingum River Unit No 4 Over Fire Air with Modification
  - Muskingum River Unit No 5 Low NO<sub>x</sub> Burner with Modification and Weld Overlay, an SCR and SO<sub>3</sub> Mitigation
  - Muskingum River Common CEMS
  - Phillip Sporn Unit No 2 Low NO<sub>x</sub> Burners with Modifications
  - Phillip Sporn Unit No 4 and 5 Low NO<sub>x</sub> Burners and Modulating Injection Air system with Modifications
  - Phillip Sporn Common CEMS, SO<sub>3</sub> Injection System and Landfill
  - Rockport Unit No 1 and 2 Low NO<sub>x</sub> Burners and Landfill

(Cont'd on Sheet 29-5)

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