

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)	2011-00031
BILLING PERIOD ENDING DECEMBER 31, 2010)	

ORDER

On February 28, 2011, 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, 2010 to December 31, 2010.² 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).

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 Wastes and By-Products (Ky. PSC May 27, 1997).

² Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings for July 2010 recover costs incurred in May 2010, and every subsequent monthly surcharge billing under review recovers costs incurred two months prior to billing.

The Commission issued a procedural schedule on February 28, 2011 that provided for discovery, the filing of prepared testimony, and an informal conference. Kentucky Power filed its response to requests for information and appeared at an informal conference on April 18, 2011. The February 28, 2011 procedural schedule also anticipated, but did not schedule, a public hearing and the filing of briefs. Additional informal conferences not included in the procedural schedule were held on November 21 and December 12, 2011 to attempt to resolve the issues in this case. There were no parties requesting intervenor status to this proceeding.

On January 11, 2012, an order was issued requiring Kentucky Power to file supplemental testimony addressing the issues discussed and resolved at these informal conferences. Kentucky Power filed the supplemental testimony on January 31, 2012. On March 20, 2012, Kentucky Power stated that there were no material issues of fact that warranted a hearing in this case. The matter now stands submitted for a decision based on the evidentiary record.

SURCHARGE ADJUSTMENT

The February 28, 2011 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 determined that it had a net over-recovery of its environmental costs in the amount of \$629,557.³ It proposed that the net over-recovery be refunded by decreasing the total jurisdictional environmental surcharge amount by a

³ Munsey Supplemental Direct Testimony dated January 31, 2012 at 3 through 6.

one-time adjustment of \$629,557 in its first monthly surcharge filing following the Commission's decision in this proceeding.⁴

Having reviewed the record, the Commission finds reasonable Kentucky Power's calculation of a net over-recovery of \$629,557 for the billing period covered in this proceeding. The Commission also finds reasonable Kentucky Power's proposal to refund the over-recovery amount by a one-time adjustment of \$629,557 in its first monthly surcharge filing following the date of this Order.

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.⁵

Kentucky Power provided the outstanding balances for its long-term debt, short-term debt, accounts receivable financing, and common equity as of October 31, 2010, 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

⁴ Id., at 6.

⁵ 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.

31, 2010.⁶ Using this information, Kentucky Power calculated a weighted average cost of capital, before income tax gross-up, of 8.11 percent.⁷ Kentucky Power also provided its updated income tax gross-up factor reflecting the methodology⁸ approved in Case No. 2005-00068.⁹

The Commission has reviewed Kentucky Power's determination of its weighted average cost of capital and finds the 8.11 percent calculation to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor 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 8.11 percent and the income tax gross-up factor of 1.5764 should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky Power shall reduce its jurisdictional environmental revenue requirement determined in the first billing month following the date of this Order by \$629,557 as discussed herein.

⁶ Response to Commission Staff's First Information Request dated March 25, 2011, Item 16.


⁷ Id.

⁸ Response to the Commission Staff's April 18, 2011 Informal Conference Information Request dated May 6, 2011, Item 5. In the response, Kentucky Power determined that its updated income tax gross-up factor was 1.5764.

⁹ 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).

2. Kentucky Power shall use a weighted average cost of capital of 8.11 percent and a tax gross-up factor of 1.5764 in all monthly environmental surcharge filings subsequent to the date of this Order.

By the Commission
ENTERED ^{PA}
APR 16 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST


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