

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 MAY 1,	)	2016-00001
2015 THROUGH OCTOBER 31, 2015	)	

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on February 5, 2016, to review and evaluate the operation of the Fuel Adjustment Clause (“FAC”) of Kentucky Power Company (“Kentucky Power”) for the six-month period that ended on October 31, 2015. As part of this review, Kentucky Power responded to three requests for information and the Commission held a formal hearing in this matter on April 7, 2016. On April 14, 2016, Kentucky Power filed its response to a request made at the hearing.

The Commission has previously established Kentucky Power’s base fuel cost as 27.25 mills per kWh.<sup>1</sup> A review of Kentucky Power’s monthly FAC filings shows that the fuel cost billed for the six-month period under review ranged from a low of 16.49 mills in October 2015 to a high of 30.99 mills in June 2015, with a six-month average of 20.93 mills. Given the Commission’s disallowance of certain fuel costs related to the Mitchell

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<sup>1</sup> 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).

Generating Station in Case No. 2014-00225,<sup>2</sup> and the refunding of those costs as set forth in Case No. 2014-00396,<sup>3</sup> the fuel costs for the period were lower than they would have otherwise been.

### Highest-Cost Unit Calculation Methodology

In FAC Orders issued in May 2002,<sup>4</sup> the Commission stated as follows:

We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.

In FAC Orders issued in 2015,<sup>5</sup> the Commission affirmed its 2002 decision that recovery through the FAC of non-economy power purchases is limited to a utility's own highest-cost generating unit available for dispatch during the month. During this review period, the Commission examined the methodologies used by the six jurisdictional

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<sup>2</sup> See 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), Final Order.

<sup>3</sup> See Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015), Final Order.

<sup>4</sup> 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 May 2, 2002), Final Order at 5; and Case No. 2000-00496-B, *An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002), Final Order at 5.

<sup>5</sup> See Case No. 2014-00226, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015); and Case No. 2014-00229, *An Examination of the Application of the Fuel Adjustment Clause of Duke Energy Kentucky from November 1, 2013 Through April 30, 2014* (Ky. PSC July 10, 2015).

generators in calculating their highest-cost units. Because Kentucky Power does not own a natural gas combustion turbine, in Case No. 2000-00495-B,<sup>6</sup> the Commission granted Kentucky Power authority to use a “Peaking Unit Equivalent” approach to calculate the level of non-economy purchase power costs to recover through the FAC.<sup>7</sup>

In calculating the peaking unit equivalent, Kentucky Power uses a heat rate of 10,400 btu/kWh for the months of September through May, and 10,800 btu/kWh for the months of June through August.<sup>8</sup> The natural gas prices used in the calculation are the Columbia Gas Appalachia natural gas prices published in *Platts Gas Daily*. The \$/MWh rates produced by this calculation were provided in response to the Commission’s February 5, 2016 Request for Information, Item 26, with a petition for confidential treatment. Having reviewed the calculation and its results, the Commission finds the calculation to be reasonable in that it produces a reasonable result.

#### Highest-Cost Unit Calculation Errors

Kentucky Power stated in response to an information request that it made an error in calculating the amount of power purchases to be excluded for recovery through the FAC during the current period under review as well as for the period November 1, 2014, through April 30, 2015.<sup>9</sup> For the current review period, Kentucky Power states that it over-collected a net amount of \$6,624 and proposes to refund this over collection

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<sup>6</sup> Case No. 2000-00495-B, *American Electric Power Company* (Ky. PSC Oct. 3, 2002), Rehearing Order at 3–4.

<sup>7</sup> The Peaking Unit Equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

<sup>8</sup> Kentucky Power’s response to Commission Staff’s Second Request for Information, Item 3.

<sup>9</sup> Kentucky Power’s response to the Commission’s February 5, 2016 Request for Information, Item 26. Kentucky Power states that it applied the properly calculated rate to an incorrect number of MWhs during periods of forced outages.

in the first month's FAC filing after the Commission's Order in this case. For the review period November 1, 2014, through April 30, 2015, Kentucky Power states that it calculated a net under collection of \$205,322.<sup>10</sup> The Commission finds that Kentucky Power should be directed to refund a total of \$6,624 in the first FAC filing made after the date of this Order. The Commission also finds that the \$205,322 under collection for the period November 1, 2014, through April 30, 2015, falls outside of the current review period and should be addressed in Kentucky Power's next two-year review proceeding.

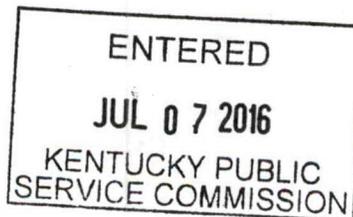
The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds no evidence of improper calculation or application of Kentucky Power's FAC charges or improper fuel procurement practices outside of the refund adjustment discussed above.

IT IS THEREFORE ORDERED that:

1. With the refund adjustment addressed in ordering paragraph 2 below, the charges and credits billed by Kentucky Power through its FAC for the period May 1, 2015, through October 31, 2015, are approved.

2. With its first FAC filing made subsequent to the date of this Order, Kentucky Power shall refund to customers \$6,624 through its FAC.

By the Commission



ATTEST:

  
Acting Executive Director

<sup>10</sup> *Id.* at 3 of 3.

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