

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE)	
PUBLIC SERVICE COMMISSION OF THE)	
ENVIRONMENTAL SURCHARGE MECHANISM)	CASE NO.
OF KENTUCKY POWER COMPANY FOR THE)	2019-00140
SIX-MONTH BILLING PERIOD ENDING)	
DECEMBER 31, 2018)	

ORDER

On May 14, 2019, the Commission initiated a six-month review of Kentucky Power Company's (Kentucky Power) environmental surcharge as billed to customers for the six-month period July 1, 2018, to December 31, 2018.¹ Pursuant to KRS 278.183(3), the Commission must review the past operations of the environmental surcharge at six-month intervals. By temporary adjustment in the surcharge, the Commission may disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable.

The May 14, 2019 Order included a procedural schedule that provided for discovery, the filing of prepared testimony, and intervenor testimony. Kentucky Power filed prepared testimony and responded to one request for information from Commission Staff. There were no intervention requests in this proceeding. On August 7, 2019, Kentucky Power filed a motion that this case be submitted for decision by the Commission

¹ Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings from July 2018 through December 2018 are based on costs incurred from May 2018 through October 2018.

based on the existing record. Finding good cause, the Commission will grant Kentucky Power's request and decide this case based on the evidence of record without a hearing.

SURCHARGE ADJUSTMENT

Kentucky Power did not propose any additional over- or underrecovery for the review period.² Having reviewed the record, the Commission finds that Kentucky Power's determination that it did not have any additional over- or underrecovery for the review period is reasonable.

Kentucky Power states that the average residential customer's monthly usage for this review period was 1,334 kilowatt-hours.³ Because Kentucky Power determined it did not have any additional over- or underrecovery for the review period, there will be no additional impact on an average residential customer's bill.⁴

RATE OF RETURN

In previous environmental surcharge reviews, the Commission has been guided by its findings in Case No. 1996-00489 with respect to the determination of the weighted average cost of capital (WACC) to be used prospectively in Kentucky Power's monthly environmental surcharge filings. However, the final Order in Case No. 2017-00179⁵ (Final Order) now supersedes the findings in Case No. 1996-00489. The Final Order authorized

² Kentucky Power's Response to Commission Staff's First Request for Information, Item 1.

³ *Id.*, Item 6.

⁴ *Id.*

⁵ Case No. 2017-00179, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief* (Ky. PSC Jan. 18, 2018).

a return on common equity of 9.70 percent for environmental surcharge purposes.⁶ It also specified that Kentucky Power utilize a WACC of 6.44 percent and a Gross Revenue Conversion Factor (GRCF) of 1.352116, to be applied to the return on equity, which would remain constant until changed by the Commission in Kentucky Power's next base rate case.⁷ Therefore, the Commission finds that the combination of these components, which produces an overall grossed-up rate of return of 7.88 percent, should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. Kentucky Power's determination that it had no additional over- or underrecovery for the review period is approved.
3. Kentucky Power shall use a weighted average cost of capital of 6.44 percent, a tax gross-up factor of 1.352116, a return on equity rate of 9.70 percent, and an overall grossed-up return of 7.88 percent in all monthly environmental surcharge filings subsequent to the date of this Order.
4. The environmental surcharge amounts determined by Kentucky Power for the review period June 1, 2018, to December 31, 2018, are just and reasonable.
5. This case is closed and removed from the Commission's docket.

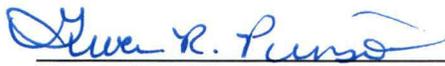
⁶ *Id.*, Final Order at 27.

⁷ *Id.* at 66.

By the Commission

ENTERED
OCT 07 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

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