

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY)	
POWER COMPANY TO DEFER A PORTION OF)	CASE NO.
FUEL ADJUSTMENT CLAUSE CHARGES FOR)	2022-00125
LATER COLLECTION WITHOUT ESTABLISHING)	
A REGULATORY ASSET)	

ORDER

On June 20, 2022, Kentucky Power Company (Kentucky Power) filed with the Commission proposed tariff sheets¹ seeking to reduce the Fuel Adjustment Clause (FAC) billings for the June 2022 billing period from what it would otherwise be pursuant to 807 KAR 5:056 and Kentucky Power’s tariff. Accompanying the proposed tariff sheet was Kentucky Power’s request that, pursuant to KRS 278.180(2) and because the proposed rate is a reduction in the FAC billings for May 2022, the Commission approve a shorter notice period for the proposed rate. Specifically, Kentucky Power requested that the proposed rate be approved effective for bills rendered between June 29, 2022, and July 28, 2022. The Commission, because there is an open docket addressing, in part, Kentucky Power’s deferral of certain fuel-related costs, will address the June 20, 2022 filing in this proceeding.

Kentucky Power proposed two changes to its FAC for the July 2022 billing period. First, Kentucky Power proposed to modify the calculation of the FAC rate from a reported sales total for the month ended May 2022 to a three-year average sales for July 2021,

¹ Attached as Appendix to this Order.

2020, and 2019. Second, Kentucky Power proposes to recover \$2 million of the \$3 million postponed, unrecovered, February 2022 and March 2022 estimated fuel costs, which otherwise would have been collected in the July 2022 billing month as a “true-up.” According to Kentucky Power, both of these adjustments reduce the FAC factor for the July 2022 billing month from \$0.03226/kWh to \$0.02485/kWh.

Administrative regulation 807 KAR 5:056, Section 1 establishes the formula for calculating the monthly FAC factor. The formula is as follows:

$$\text{Adjustment Factor} = \frac{F(m)}{S(m)} - \frac{F(b)}{S(b)}$$

Where F(b) is the cost of fuel in the base period, F(m) is the cost of fuel in the current period, S(b) is sales in the base period, and S(m) is sales in the current period, all as established in subsections (2) through (6) of this section.

Relevant to Kentucky Power’s request is the calculation of S(m), sales in the current period. Kentucky Power is proposing to replace the sales from May 2022, the current period, with a three-year average of previous July sales of 2021, 2020, and 2019, in order to reduce the FAC factor. While this is a notable goal, the FAC regulation does not allow this substitution. Under the FAC regulation, costs and sales for (m) and (b), respectively, use identical periods. Thus, Kentucky Power’s proposal is contrary to the plain reading of the FAC regulation. The FAC regulation, in general, does not contain a clause allowing for deviation from its requirements. The Commission, therefore, finds that Kentucky Power’s proposal to use the three-year average for July 2021, 2020, and 2019, sales as a proxy for S(m), the May 2022 sales in the current period, is contrary to the law and must be denied.

The Commission, however, finds that Kentucky Power may of course recover a lesser amount of the unrecovered \$3 million deferral from February 2022 and March 2022

estimated fuel costs, which otherwise would have been collected in the July 2022 billing month. Because these costs occurred outside of the current period, and are included in the calculation of Kentucky Power's over- and under-recovery determination for estimated costs, the recovery of these deferred costs in a later period is allowed under the FAC regulation.² The Commission notes that if Kentucky Power seeks to reduce its FAC factor, as seemed to be the intent of using a different proxy for S(m), it could seek to recover less than the \$2 million of the deferred February and March 2022 costs.

The Commission finds that Kentucky Power's FAC rate to be billed in July 2022, absent Kentucky Power's proposed changes and in accordance with the relevant regulation and tariffs, be based on a fuel related cost of \$25,278,097 and the May 2022 sales of 415,884,310 kWh which results in a FAC factor of \$0.06078 per kWh for the May 2022 period and a billed FAC rate of \$0.03466³ per kWh.

KRS 278.180(1) generally provides that a utility may not change its rates with shorter than 30 days' notice. That notice period may be amended when a utility is proposing a rate reduction. Specifically, KRS 278.180(2) provides: "The commission, upon application of any utility, may prescribe a less time within which a reduction of rates may be made."

² The Commission, in response to unprecedented estimated fuel costs, has allowed the deferral and subsequent recovery over time of those deferred costs. See *generally*, Case No. 2014-00451, *An Examination of the Application of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from November 1, 2012 Through October 31, 2014* (Ky. PSC Aug. 11, 2015), for a discussion of one of these instances.

³ The FAC factor that is to be billed to customers for the July 2022 billing period is determined by reducing the current period FAC rate of \$0.06078 per kWh by the base FAC rate of \$0.02612 per kWh which results in a FAC rate of \$0.03466 per kWh.

The monthly FAC factor is calculated pursuant to 807 KAR 5:056 and Kentucky Power's tariff based upon fuel and power costs of Kentucky Power and is thus considered the filed rate that Kentucky Power must charge.⁴ Pursuant to regulation and the tariff, the FAC rate to be billed in July 2022 is \$0.03466 per kWh, however, the rate Kentucky Power can charge, if it only recovers \$2 million of the deferred \$3 million deferred fuel costs, and using the May 2022 sales, is \$0.03226 per kWh, which is a reduction of the rate that is otherwise to be charged and the Commission may order a "less time within which a reduction of rates may be made."

The Commission finds that Kentucky Power's proposed tariff filing to use a three-year July 2021, 2020, and 2019, average to determine sales for the current period is denied for the reasons stated herein. The Commission finds that Kentucky Power may reduce its FAC billing factor, effective as of the date of this Order, for bills rendered between June 29, 2022, and July 28, 2022. Should Kentucky Power seek a lower July 2022 FAC rate than the one approved here, by recovering less than \$2 million of deferred February and March 2022 costs, it shall immediately file to do so upon a lesser notice than 20 days of the proposed decrease.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to use a three-year average of sales in the calculation of its FAC rate to be billed in July 2022 is denied.
2. Kentucky Power's request for a reduced time in which to reduce its FAC rate is granted.

⁴ See, KRS 278.160 and *Cincinnati Bell Telephone Co. v. Kentucky Public Service Com'n*, 223 S.W.3d 829, 837 (Ky. App. 2007).

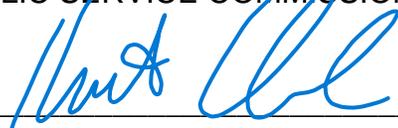
3. Kentucky Power's FAC billing factor, for bills rendered between June 29, 2022, and July 28, 2022, is \$0.03226 per kWh and is approved for service on and after the date of entry of this Order.

4. Kentucky Power, before the end of June 2022, may file with the Commission a proposed reduced FAC billing factor lower than the billing factor approved herein, that recovers less than \$2 million of the deferred expenses from February and March 2022. The Commission will work diligently to timely approve such a filing.

5. Kentucky Power shall file revised tariff sheets reflecting the rate approved herein within ten days of service of this Order.

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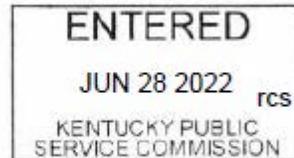
PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00125 DATED JUN 28 2022

FOUR PAGES TO FOLLOW

June 20, 2022

ELECTRONICALLY FILED

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Linda C. Bridwell
Executive Director
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RE: **P.S.C. KY. No. 12 2nd Revised Sheet No. 5-3** – Filed Via Commission Tariff
Filing System

Dear Ms. Bridwell:

Kentucky Power Company files herewith clean and relined versions of its 2nd Revised Sheet No. 5-3.

The Company's 2nd Revised Sheet No. 5-3 reflects the revision of Section 14 to Tariff F.A.C. (Fuel Adjustment Clause) to temporarily reduce the FAC rate from \$0.03226/kWh (total adjustment factor of \$0.03236/kWh), calculated in accordance with the Company's existing tariff formula, to \$0.02485/kWh (total adjustment factor of \$0.02495/kWh). The temporary reduction will be applied to customer bills rendered between June 29, 2022 and July 28, 2022.

The proposed rate reduction reflects two temporary modifications of the formula incorporated in the Company's fuel adjustment clause tariff. First, the filing for bills rendered during the July 2022 billing typically would incorporate *May* 2022 kWh sales (415,884,310 kWh). The reduced rate instead uses the three-year average of prior year *July* sales (2019, 2020, 2021) of 476,345,836 kWh.¹ The use of the three-year July sales average provides multiple benefits. May is a shoulder month. That typically means kWh sales for May are lower than in June or July of any given year. The use of the lower May 2022 kWh sales value mathematically yields a higher FAC factor. When applied to the higher June 2022 customer consumption (particularly in light of the recent high temperatures), a higher factor computed using the May 2022 sales is likely to produce a significant over-collection on the July 2022 bills. The use of the July billing month sales thus helps reduce the over-collection and resultant volatility in the FAC factor on customer bills. Also, a three-year average limits inter-year variability. In fact, the

¹ The reduced rate, as in the past, uses estimated May 2022 fuel costs, with an adjustment reflecting actual April 2022 fuel costs, in computing the FAC factor to be applied to the July 2022 billing month.

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three year average of July sales (476,345,836.45 kWh) is very close to the median value (472,750,402 kWh) for the three-year period.

Second, to effect Kentucky Power's February 2022 commitment to address the monthly volatility of the Company's F.A.C., Kentucky Power postponed the collection of \$3,000,000 of February 2022 and \$3,000,000 of March 2022 estimated fuel costs. A total of \$6,000,000 was postponed for later collection from customers. Kentucky Power collected \$1,000,000 of the postponed February 2022 amounts as part of the May 2022 billing cycle. Kentucky Power collected \$2,000,000 of the postponed February 2022 and March 2022 amounts as a part of the June 2022 billing cycle. There remains \$3,000,000 in postponed amounts to be collected from customers.

The Company proposes to collect \$2,000,000 of the remaining \$3,000,000 in postponed amounts from customers during the July billing month, rather than collecting the remaining \$3,000,000 in its entirety during the July billing month.

Collecting only \$2,000,000 of the \$3,000,000 of postponed amounts during the July billing month, rather than the remaining \$3,000,000, coupled with the use of the three-year average of July kWh sales, results in a rate reduction from \$0.03226/kWh (total adjustment factor of \$0.03236/kWh) to \$0.02485/kWh (total adjustment factor of \$0.02495/kWh). The rate reduction described in this paragraph will only be effective for and applied to customer bills rendered between June 29, 2022 and July 28, 2022.

The modifications to Tariff F.A.C. Section 14 described above are temporary and are made for the purposes of administrative efficiency. They follow consultations with Commission Staff on May 23, 2022, and at the informal conference held on April 26, 2022 in Case No. 2022-00125, which concerns the Company's application to limit volatility of fuel costs for customers, including its pending request to amortize and collect the postponed costs in the June, July, and August 2022 billing cycles. The Company filed its application therein with the understanding that its proposal to amortize and collect the postponed costs in the June, July, and August 2022 billing cycles would be addressed by the Commission in that case.

The Company requests as a part of this tariff filing, and pursuant to KRS 278.180(2), that the Commission allow the reduced rate proposed in Section 14 of 2nd Revised Sheet No. 5-3 to become effective for bills rendered between June 29, 2022 and July 28, 2022. As such, the Company requests approval of the tariff revisions described herein as soon as possible, but no later than by June 27, 2022 to ensure that the Company's billing department has sufficient time to implement (or not implement) by June 29, 2022 the proposed reduction.

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The Company is mindful of the short turnaround for this request, but states that it has worked diligently to file these revised tariff sheets reflecting a rate reduction as soon as possible.

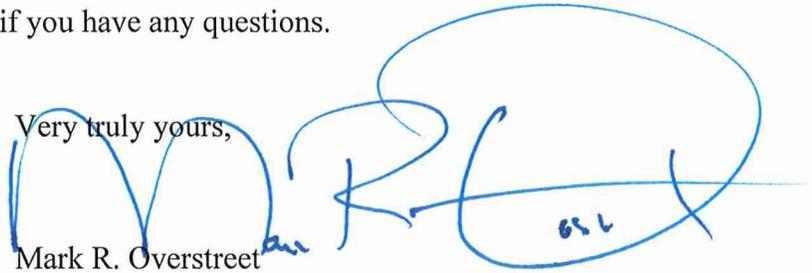
For these same reasons, and given that the proposed tariff revisions result in a rate reduction, the Company also requests a deviation from any customer notice requirements in 807 KAR 5:011, Section 8(2), to the extent a deviation is required.

The revised tariff sheet filed with this letter is effective for bills rendered on or after June 29, 2022.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet



MRO

TARIFF F.A.C. (Cont'd)
(Fuel Adjustment Clause)

14. Kentucky Power will temporarily reduce the FAC rate from ~~0.03466 \$0.03226 kWh~~ to ~~0.03226 \$0.02485 kWh~~, which will be applied to customer bills rendered between June 29, 2022 and July 28, 2022. This rate reduction ~~is the result of~~ reflects the Company's election to collect \$2,000,000 of the remaining \$3,000,000 of postponed February 2022 and March 2022 estimated fuel costs, which otherwise would have been collected from customers during the July 2022 billing month, as well as the Company's use of the three-year average of prior year July sales. The rate reduction described in this paragraph will only be effective for and applied to customer bills rendered between June 29, 2022 and July 28, 2022. More information about the Company's requests to temporarily levelize fuel costs for customers, including its pending request to amortize and collect the remainder of postponed costs in the August 2022 billing cycle, can be found in the Company's Application filed in Case No. 2022-00125.

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DATE OF ISSUE: ~~June 20~~ May 24, 2022
DATE EFFECTIVE: Bills Rendered On And After June 29, 2022
ISSUED BY: /s/ Brian K. West
TITLE: Vice President, Regulatory & Finance
By Authority Of an Order of the Public Service Commission
In Case No. XXXX-XXXXX Dated XXXX XX, XXXX

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