COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE NECESSITY AND USEFULNESS OF AND THE COST RESPONSIBILITY FOR THE HANGING ROCK-JEFFERSON 765 KV TRANSMISSION LINE UNDER CONSTRUCTION BY KENTUCKY POWER COMPANY ) CASE NO. 8904

O R D E R

COMMENTARY

Kentucky Power Company ("KPC") is a regulated utility providing electric service to approximately 145,000 customers in 20 counties in Eastern Kentucky. KPC, along with its sister corporations, Appalachian Power Company, Ohio Power Company, Columbus and Southern Ohio Electric Company, and Indiana and Michigan Electric Company, are wholly-owned subsidiaries of the American Electric Power Company ("AEP"), a regulated public utility holding company. These five subsidiaries, collectively referred to as the "operating companies," along with the AEP Service corporation, are members of an Interconnection Agreement which is subject to regulation by the Federal Energy Regulatory Commission ("FERC"). The Interconnection Agreement provides a framework for the operating companies to purchase power from each other and utilize each other's transmission facilities.

## BACKGROUND

On April 22, 1974, KPC filed its application with the Commission for authority to construct a 765 KV transmission line from Hanging Rock, Ohio, to Jefferson, Indiana, ("Hanging Rock-Jefferson") Case No. 6019, Application of Kentucky Power Company for a Certificate of Public Convenience and Necessity Authorizing it to Construct Additional 765 KV Transmission Facilities. The proposed transmission line would be 162 miles long, with 6.2 miles in Ohio, 0.7 miles in Indiana and 155.1 miles in Kentucky.

KPC's application stated that

> the total cost of the Company's portion of the proposed Hanging Rock-Jefferson 765 KV line is estimated at about 55 million dollars. The other operating companies of the AEP System will compensate the Company for an appropriate part of the carrying charges associated with ownership of that portion of the proposed Hanging Rock-Jefferson 765 KV line that will be located in Kentucky.[1]

The application was supplemented and supported by the testimony of Mr. Waldo S. LaFon, executive vice president of KPC and a director of the AEP Service Corporation. Mr. LaFon testified that he had been assured by the president of AEP that the other AEP operating companies would pay KPC for 95 percent of the carrying charges for this line.[2] The remaining five percent, to be borne by KPC, corresponded to KPC's member load ratio at that time. (The member load ratio is defined by the Interconnection

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[1] Case 6019 - Application, page 3.

[2] Case 6019 - Transcript, May 7, 1974, page 8.

Agreement as the ratio of one member's maximum demand to the sum of all members' maximum demands.)

On May 17, 1974, the Commission entered an Order granting KPC a certificate of convenience and necessity to construct the Hanging Rock-Jefferson transmission line.[3] That Order recognized that "[t]hese transmission facilities are being proposed for the purpose of enhancing the overall reliability of the AEP system in general and the Kentucky Power Company in particular in that they will facilitate the transfer of power...."[4]

Subsequently, in 1976, in Case No. 6542, In the Matter of General Adjustments In Electric Rates of Kentucky Power Company, Mr. LaFon again stated that the costs of the transmission line would be shared by other AEP companies.

In August 1983, KPC presented evidence in Case No. 8734, General Adjustment in Rates for Kentucky Power Company, which indicated that construction of the Hanging Rock-Jefferson 765 KV line was scheduled to be completed in the fall of 1984 at a cost of $123 million. Further, KPC testified that the evidence presented in Case No. 6019, with respect to receipt of reimbursement for 95 percent of the carrying charges for the transmission line, was erroneous and that KPC would be responsible for 100 percent of the carrying charges.

On September 20, 1983, the Commission entered an Order which established this docket, Case No. 8904, to investigate KPC's need

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[3] Case 6019 - Commission Order of May 17, 1974, page 2.

[4] Ibid., page 1.

for the transmission line and the appropriateness of KPC paying 100 percent of the construction cost and operation and maintenance expenses. Hearings were held on January 10-12, 1984, and February 16, 1984, at the Commission's offices in Frankfort, Kentucky.

## DISCUSSION

In prefiled testimony and during cross-examination KPC attempted to justify the transmission line based on the needs of the AEP System. Mr. Raymond M. Maliszewski, Assistant Vice President of Bulk Transmission Planning in the Systems Planning Department of the AEP Service Corporation, testified that the "Hanging Rock-Jefferson line would provide the closing element to a 765 KV loop encompassing the eastern and western parts of the [AEP] system."[5] Similarly, Mr. Mark K. Enns, witness for KPC, stated that "the Hanging Rock-Jefferson 765 line is a needed facility for AEP, and one which is therefore needed by Kentucky Power since Kentucky Power is an integral member of AEP and derives many benefits as a result of its membership."[6] Further, during cross-examination Mr. Maliszewski stated that the "justification for the line was primarily on the basis of our east to west [Ohio to Indiana] transfer capability evaluation" which, based on studies in the early 70s, indicated that "the AEP system would have insufficient transfer capability to satisfy its

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[5] Case 8904, Prefiled Testimony of Raymond M. Maliszewski, page 17.

[6] Case 8904, Prefiled Testimony of Mark K. Enns, page 6.

expected requirements."[7] Clearly, the primary justification for the line was the AEP system's needs.

However, KPC would receive some benefit since its reliability would be enhanced with the presence of the Hanging Rock-Jefferson 765 KV line. Mr. Maliszewski, in exhibits RMM-6 through RMM-9, provides two scenarios where, without the Hanging Rock-Jefferson line in operation, conditions could lead to a cascading shutdown of the KPC system. The exhibits describe the scenarios as "severe but possible." On cross-examination, Mr. Maliszewski testified that no estimate of the probability of these specific sets of circumstances was determined, but he acknowledged that "these are low probability conditions."[8]

With regard to KPC now being responsible for 100 percent of the cost of the transmission line, generally the justification was that historically each AEP operating company was responsible for transmission facilities built in its state. Mr. Abraham Gerber, witness for KPC, testified that the Commission should allow KPC to recover 100 percent of the costs associated with the line because to do otherwise "would violate the spirit of the AEP System pool operations, would contravene the method by which transmission costs have been allocated by the participants to the

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[7] Case 8904, Transcript, Volume I, January 10, 1984, page 108-109.

[8] Ibid., page 104.

present time, and would disrupt the effective implementation of the system's planning and operation."[9]

Intervenors argued that for rate-making purposes with regard to the Hanging Rock-Jefferson line, KPC should be restricted to their representation in the prior cases. That is, KPC would be allowed a return on 5 percent of their investment in the transmission line and they would be allowed recovery of 5 percent of the associated expenses.

At the outset of the January hearings in this investigation, KPC's counsel informed the Commission that the AEP operating companies intended to file, with the FERC, a transmission agreement which would include a transmission equalization charge. Under the provisions of the proposed charge, each member operating company would be responsible for its member load ratio of the overall AEP system's investment in transmission facilities. This charge is proposed to be phased in over 5 years to mitigate the financial impact on the member companies. The Commission has been notified that the contemplated transmission agreement has been filed with the FERC for its approval.[10]

Also during the hearings, KPC proposed that the $123 million investment in the Hanging Rock-Jefferson line be phased into rate base over a 5-year period for rate-making purposes in Kentucky. The specifics of the phase-in proposal are to be considered in KPC's pending rate case.

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[9] Case 8904, Prefiled Testimony of Abraham Gerber, page 26.

[10] KPC letter to Public Service Commission, dated March 20, 1984.

## FINDINGS

The Commission finds that KPC's request to recover from its ratepayers 100 percent of the carrying costs and expenses related to the Hanging Rock-Jefferson line to be unreasonable. The record clearly demonstrates that the line was designed, planned and built for the benefit of the AEP system. KPC's direct benefits from this line will be limited. The AEP system cannot expect the Commission to make KPC ratepayers pay for transmission lines which greatly exceed KPC's needs. Nor should this Commission be expected to impose the entire cost of this transmission line on the KPC ratepayers merely because the line is nearly completed and the money spent.

The intervenors' position that KPC should be allowed to recover 5 percent, or even 6.5 percent, which is approximately KPC's current member load ratio, of the carrying costs and expenses related to the Hanging Rock-Jefferson line is also unreasonable. It would be unfair to allow KPC's ratepayers to be responsible for only KPC's member load ratio of the new line, while utilizing the transmission network of the entire AEP system. The AEP transmission system has benefited KPC and its ratepayers by enabling AEP to build larger, more economical generating units; facilitated the economic dispatch of power on the system; and made sales to other utilities possible. These are laudable goals that are consistent with directions that the Commission is exploring in Case No. 8666, An Investigation Into Alternative Load Forecasting Methods and Planning Considerations for the Efficient Provisions of Electric Generation and Transmission Facilities.

After careful consideration of the entire record, the Commission has determined that it is fair and reasonable to allow the recovery of the carrying costs and expenses on that portion of the investment in the Hanging Rock-Jefferson 765 KV line required for KPC to meet its member load ratio of the AEP system-wide EHV transmission investment. This methodology is similar to the method used by the AEP system to determine each of the member's responsibility for the system generating capacity. The Interconnection Agreement requires each of the member companies to be responsible for its member load ratio portion of the AEP generating capacity. Also this alternative recognizes that KPC receives some benefit from the transmission facilities provided by the other member companies.

Accordingly, the Commission finds that KPC should be allowed to recover the carrying costs and related expenses on that portion of its investment in the Hanging Rock-Jefferson 765 KV transmission line that is required to make KPC's dollar investment in EHV transmission facilities equal to its member load ratio times the entire AEP system EHV transmission dollar investment. The Commission finds that all investment in excess of this amount will not be used and useful for Kentucky operations. Further, the Commission finds that the portion of the line allowed in rate base should be phased in over 5 years as proposed by KPC.

## ORDER

IT IS THEREFORE ORDERED that for rate-making purposes, KPC shall be allowed a return on the portion of the Hanging Rock-Jefferson 765 KV transmission line investment that is required to make KPC's EHV transmission dollar investment equal to its member load ratio times the entire AEP system EHV investment.

IT IS FURTHER ORDERED that the portion of KPC's investment in the Hanging Rock-Jefferson 765 KV transmission line to be included in rate base shall be phased in over 5 years.

Done at Frankfort, Kentucky, this 3rd day of August, 1984.

PUBLIC SERVICE COMMISSION

(Not Participating)
Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary