

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 POWER COMPANY d/b/a) CASE NO.
AMERICAN ELECTRIC POWER AS BILLED FROM) 98-106
JULY 1, 1997 TO DECEMBER 31, 1997)

O R D E R

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power"), d/b/a American Electric Power, environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). The Commission hereby initiates the six-month review of Kentucky Power's environmental surcharge as billed from July 1, 1997 to December 31, 1997.²

¹ Case No. 96-489, 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 Waste and By-Products, final Order dated May 27, 1997.

² Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 1997 through December 1997 are based on costs incurred from May 1997 through October 1997.

In anticipation that those parties to Case No. 96-489 will desire to participate in this proceeding, the Attorney General's Office ("AG") and the Kentucky Industrial Utility Customers ("KIUC") will be deemed parties to this proceeding.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. Kentucky Power shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from July 1, 1997 through December 31, 1997.

3. Kentucky Power shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, Kentucky Power shall forward a duplicate of the notice and request to the Commission.

4. Kentucky Power shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the review period.

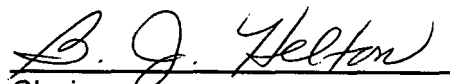
5. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 10 copies to the Commission.

6. The AG and KIUC are granted full intervention in this proceeding.

7. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 27th day of February, 1998.

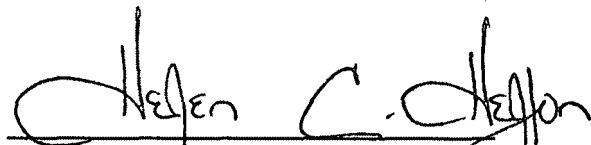
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 98-106 DATED FEBRUARY 27, 1998

- Kentucky Power shall file its prepared direct testimony and responses to the information request in Appendix B no later than 03/20/98
- All additional requests for information to Kentucky Power shall be filed no later than 04/03/98
- Kentucky Power shall file responses to additional requests for information no later than 04/17/98
- Intervenor testimony, if any, in verified prepared form shall be filed no later than 05/01/98
- All requests for information to Intervenors shall be filed no later than 05/15/98
- Intervenors shall file responses to requests for information no later than 05/29/98
- Last day for Kentucky Power to publish notice of hearing date 06/04/98
- Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of Kentucky Power and Intervenors 06/11/98
- Briefs, if any, shall be filed by 07/06/98

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 98-106 DATED FEBRUARY 27, 1998

INITIAL INFORMATION REQUEST

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of May 1997 through December 1997. Use ES Form 1.0 as a model for this summary. The expense months of November and December 1997 have been included in order to show the over- and under-recovery adjustments for the months included for the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for this six-month review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

2. Refer to ES Form 3.10, Costs Associated with Big Sandy, expense months of September and October 1997.

a. Explain why the amounts reported for Accumulated Depreciation and Accumulated Deferred Income Taxes were the same in the September and October expense months.

b. Accumulated Depreciation as reported on ES Form 3.10 for the expense months May through December shows that this account experienced an increase of approximately \$4,000 per month until October. This pattern resumed in November and December. Would it be correct that the error in October has impacted the amounts reported for November and December?

c. Accumulated Deferred Income Taxes as reported on ES Form 3.10 for the expense months May through December shows that this account experienced an

increase of approximately \$900 per month until October. This pattern resumed in November and December. Would it be correct that the error in October has impacted the amounts reported for November and December?

d. Submit revised monthly environmental surcharge calculations for the expense months of October, November, and December, reflecting the correction of these account balance errors.

3. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11:

a. Explain why Disposal Cost, Account No. 501.91, fluctuated so much during the expense months of May through October.

b. Explain why Lime Cost, Account No. 502.9, experienced significant drops in July and August, but increased in September and October.

c. Explain why Lease Cost, Account No. 507, increased in September.

d. Explain why Scrubber Maintenance Cost, Account No. 512.8, increased in August and September, but decreased in October.

4. In Case No. 96-489, the Commission ordered that Kentucky Power's weighted average cost of capital would remain fixed during each six-month period, and would be reviewed and re-established during each six-month review case. In accordance with this finding, provide the following information as of December 31, 1997:

a. The outstanding balances for long-term debt, short-term debt and common equity.

b. The blended interest rates for long-term and short-term debt. Include all supporting calculations showing how these interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

5. Refer to ES Form 3.12, Emissions Allowance Inventory.

a. Explain why the cumulative dollar balance for the inventory reported in the expense month of July reflected a reduction of \$46,836. If necessary, submit a revised July expense month environmental surcharge calculation.

b. Provide the price for allowances from intercompany purchases as defined by the Interim Allowance Agreement ("IAA") for calendar year 1997. Include the calculations which support the price.

c. For the expense month of October, Kentucky Power reported its intercompany purchases had a weighted average cost of \$140.848 per allowance. If this amount does not agree with the price as defined in the IAA for 1997, explain the difference in the two prices.

6. In Appendix B to its May 27, 1997 Order, the Commission prescribed a series of reporting formats Kentucky Power was to use when filing its monthly environmental surcharge report. During the first six months of the surcharge, the Commission Staff have noticed that ES Form 2.0 has been retitled as "Current Period" rather than "Base Period" and has been filed each month. The Commission instructed Kentucky Power that ES Form 2.0 and its supporting schedule only needed to be filed

once as part of the first monthly surcharge filing. Explain why Kentucky Power found these modifications were necessary.