

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

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power") shall file the original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than April 17, 1998.

1. Refer to the response to the Commission's February 27, 1998 Order, Item 1, sheet 2 of 2. Kentucky Power has indicated that, after correcting problems it identified in its analysis, there is a minor over-recovery of the surcharge for the review period. Explain how Kentucky Power would propose to return this over-recovery to its customers.

2. Refer to the response to the Commission's February 27, 1998 Order, Item 2. In the response, Kentucky Power indicated that it intended to use the beginning of

the month balances in calculations for accumulated depreciation and accumulated deferred income tax on ES Form 3.10. For the months in question, Kentucky Power indicated that it had inadvertently used the end of the month balances for these accounts in its calculations.

a. Provide references to the record in Case No. 96-489¹ where Kentucky Power indicated that the beginning, rather than ending, balances for accumulated depreciation and accumulated deferred income tax would be used in the surcharge calculations.

b. Explain why beginning of the month balances are appropriate to use in the surcharge calculations, rather than end of the month.

3. Refer to the response to the Commission's February 27, 1998 Order, Item 2(d), sheet 5 of 48. This is a revised ES Form 3.10 for the expense month of May 1997.

a. Does the cumulative emission allowance inventory balance shown on this page reflect the beginning or ending monthly balance?

b. In all monthly environmental surcharge filings to date, has Kentucky Power routinely used the ending monthly balance for the emission allowance inventory? If no, identify the months Kentucky Power used something other than the ending monthly balance.

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.

4. The monthly environmental surcharge filing provides the calculation of a monthly environmental revenue requirement and associated surcharge factor. The revenue requirement is composed of the calculation of a current period revenue requirement, based on a specific expense month, and the recognition of a base period revenue requirement associated with the Rockport generating station.

a. Concerning the current period revenue requirement, since the calculation is for a specific expense month, would Kentucky Power agree that this implies that amounts used in the calculations are to be as of the end of the expense month, rather than some other point in time? If no, explain why not.

b. The base period revenue requirement clearly indicates that the balances used are as of December 31, 1990. Would Kentucky Power agree that it is reasonable to assume the current period revenue requirement would also reflect calculations as of the end of a specific month? If no, explain why not.

c. In previous rate cases before the Commission, would Kentucky Power agree that the calculation of its rate base has been based on end of the test year balances, rather than some other point in time? If no, provide citations to cases where an approach other than end of the test year was used.

5. For each month included in the six-month review period, provide the calculation of the current period revenue requirement reflecting the account balances as of the end of the expense month. If the information has already been provided in the record, either through data responses or the monthly surcharge filings, so state.

6. Refer to the response to the Commission's February 27, 1998 Order, Item 4. Kentucky Power has calculated that its weighted average cost of capital for environmental surcharge purposes as of December 31, 1997 is 12.37 percent. Would Kentucky Power agree that this weighted average cost of capital should be used in calculating monthly environmental surcharge revenue requirements prepared subsequent to the date of the Commission's final Order in this proceeding? If no, explain the response.

Done at Frankfort, Kentucky, this 3rd day of April, 1998.

PUBLIC SERVICE COMMISSION



For the Commission

ATTEST:



Executive Director