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 AMERICAN ELECTRIC POWER FOR THE SIX-MONTH BILLING PERIODS ENDING JUNE 30, 2000, DECEMBER 31, 2000, DECEMBER 31, 2001, AND JUNE 30, 2002, AND FOR THE TWO-YEAR BILLING PERIOD ENDING JUNE 30, 2001	)	CASE NO. 2002-00393

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 6-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). At 2-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. The

[1] Case No. 1996-00489, 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.

Commission has determined that it will be administratively efficient and reasonable to review the pending 6-month periods and the second 2-year period in the same case. Therefore, the Commission hereby initiates the 6-month reviews of the surcharge as billed from January 1, 2000 to June 30, 2000, from July 1, 2000 to December 31, 2000, from July 1, 2001 to December 31, 2001, and from January 1, 2002 to June 30, 2002, and the 2-year review of the surcharge as billed from July 1, 1999 to June 30, 2001.[2] Since each of the periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission will entertain proposals to adopt one adjustment factor to net all over- and under-recoveries.

In Case No. 2000-00107,[3] the Commission found that it was not appropriate as a result of the first 2-year review to incorporate any surcharge amount into the existing base rates of Kentucky Power. The Commission also stated that it agreed that in circumstances where a roll-in was appropriate, the principle of revenue neutrality should be taken into consideration.[4] As this proceeding includes the second 2-year review of

[2] Since Kentucky Power s surcharge is billed on a two-month lag, the amounts billed from January 2000 through June 2000 are based on costs incurred from November 1999 through April 2000; amounts billed from July 2000 through December 2000 are based on costs incurred from May 2000 through October 2000; amounts billed from July 2001 through December 2001 are based on costs incurred from May 2001 through October 2001; amounts billed from January 2002 through June 2002 are based on costs incurred through November 2001 through April 2002; and amounts billed from July 1999 through June 2001 are based on costs incurred from May 1999 through April 2001.

[3] Case No. 2000-00107, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company d/b/a American Electric Power for the Six-Month Billing Periods Ending December 31, 1998 and December 31, 1999, and for the Two-Year Billing Period Ending June 30, 1999, final Order dated February 8, 2001.

[4] Id. at 18.

the environmental surcharge and the issue of a roll-in is relevant, Kentucky Power should file testimony pertaining to its proposals concerning such a roll-in in accordance with the procedural schedule contained in Appendix A of this Order.

In Case No. 1996-00489, the Commission accepted Kentucky Power s proposal that the rate of return on common equity used in its weighted average cost of capital would be subject to review during the 2-year environmental surcharge reviews. As this proceeding includes a 2-year review of the environmental surcharge, Kentucky Power should file testimony pertaining to its proposals concerning its rate of return on common equity in accordance with the procedural schedule contained in Appendix A of this Order.

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 (a) January 1, 2000 through June 30, 2000; (b) July 1, 2000 through December 31, 2000; (c) July 1, 2001 through December 31, 2001; (d) January 1, 2002 through June 30, 2002; and (e) July 1, 1999 through June 30, 2001. At the public hearing there shall be no opening statements or summaries of testimony.

3. Kentucky Power shall give notice of the hearing in accordance with the provisions of Administrative Regulation 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 five periods under review, the issue of a roll-in of the existing surcharge into base rates, and its proposed rate of return on common equity to be incorporated into the weighted average cost of capital.

5. Any party filing testimony shall file an original and 11 copies. The original and at least three copies of the testimony shall be filed as follows:

a. Together with cover letter listing each person presenting testimony.

b. Bound in 3-ring binders or with any other fastener which readily opens and closes to facilitate easy copying.

c. Each witness s testimony should be tabbed.

d. Every exhibit to each witness s testimony should be appropriately marked.

6. 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 8 copies to the Commission.

7. Within 7 days of the Commission granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for each review period.

8. Within 21 days of the Commission granting intervention to a party, that party shall issue its initial data request to Kentucky Power, with responses becoming due as provided by the date set forth in Appendix A.

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

10. The case records of Case Nos. 1996-00489 and 2000-00107 shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 21st day of November, 2002.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00393 DATED November 21, 2002

Kentucky Power shall file its prepared direct testimony, responses to the information requested in Appendix B, and responses to any Intervenor requests for information no later than 01/15/03

An informal technical conference is to begin at 1:30 p.m., Eastern Standard Time, in Conference Room 1 of the Commission s offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues 01/22/03

All additional requests for information to Kentucky Power shall be filed no later than 02/04/03

Kentucky Power shall file responses to additional requests for information no later than.. 02/18/03

Intervenor testimony, if any, in verified prepared form shall be filed no later than 03/04/03

All requests for information to Intervenors shall be filed no later than.. 03/18/03

Intervenors shall file responses to requests for information no later than.. 04/01/03

Kentucky Power may file with the Commission the testimony of its rebuttal witnesses in written verified form no later than 04/14/03

Last day for Kentucky Power to publish notice of hearing date 04/24/03

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission s offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of Kentucky Power and Intervenors 05/01/03

Briefs, if any, shall be filed by.. 05/23/03

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00393 DATED November 21, 2002

FIRST DATA REQUEST OF COMMISSION STAFF TO KENTUCKY POWER COMPANY

Billing Period January 1, 2000 through June 30, 2000

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of November 1999 through June 2000. Use ES Form 1.0 as a model for this summary. The expense months of May and June 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 6-month review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

2. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the Interim Allowance Agreement (IAA) in each month of the November 1999 through April 2000 expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

3. Refer to ES Form 3.10, Costs Associated with Big Sandy, Monthly Kentucky Air Emissions Fee, expense months of November and December 1999. Explain the change in the amounts recorded for the emissions fee in those months.

4. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11 for the expense months of November 1999 through April 2000:

a. For November 1999 and February 2000, explain why the amounts recorded in the Disposal Cost, Account No. 501.91, are lower than other months in the review period.

b. For November 1999 and February 2000, explain why the amounts in the Lime Cost, Account No. 502.9, are lower than other months in the review period.

c. For April 2000, explain why the amount in the Scrubber Maintenance Cost, Account No. 512.8, is lower than other months in the review period.

d. Explain the change in the Kentucky Power Capacity Deficit noted in January and February 2000.

5. Refer to ES Form 3.12, Emissions Allowance Inventory, additions section. During the expense months of November 1999 through April 2000, Kentucky Power acquired 61,522 allowances classified as Other.

a. Describe the types of transactions reported in the Other category.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired ranged from $71.94 to $186.51. Explain how the price per allowance for this category of emissions allowance is determined.

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

a. Describe the types of transactions reported in the P & E Transfers In and the P & E Transfers Out categories.

b. Explain how the price per allowance for this category of emissions allowance is determined.

7. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of November 1999 through April 2000. Explain how the price per allowance was determined for Off-system Sales, as shown for each expense month. Indicate if any Off-system Sale of allowances was impacted or governed by the terms of the IAA.

8. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of January through April. Explain how the price per allowance was determined for SO2 Emissions, as shown for each expense month.

9. Provide the following information concerning the Emissions Allowance Inventory shown on ES Form 3.12 for the expense months of November 1999 through April 2000. As used in these questions, current vintage year means the current vintage year plus any unused allowances remaining from previous vintage years.

a. Does the Allowance Activity in Month reflect both current vintage year and future vintage years allowances, or just the current vintage year allowances?

b. Does the Cumulative Balance reflect both the current vintage year and future vintage years allowances, or just the current vintage year allowances?

c. If the Emissions Allowance Inventory shown on ES Form 3.12 for November 1999 through April 2000 includes both current and future vintage year allowances, prepare a schedule separating the current vintage year allowances from the future vintage year allowances. This schedule should show the number of allowances and the dollar value of those allowances for the current and future vintage years.

Additions and withdrawals may be shown in total, provided the sum of the current and future vintage years matches the amounts shown for that particular expense month on ES Form 3.12.

10. Provide the following information concerning Kentucky Power s debt and common equity balances as of June 30, 2000:

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.

Billing Period July 1, 2000 through December 31, 2000

11. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of May 2000 through December 2000. Use ES Form 1.0 as a model for this summary. The expense months of November and December 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 6-month review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

12. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the IAA in each month of the May through October expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

13. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11 for the expense months of May through October:

a. For the expense month of May, explain why the amount reported in the Scrubber Maintenance Cost, Account No. 512.8, is lower than other months of the review period.

b. For the expense month of August, explain why the amount reported in the Scrubber Maintenance Cost, Account No. 512.8, is higher than other months of the review period.

c. Explain the fluctuations in the Kentucky Power Capacity Deficit for the expense months of June through October.

14. Refer to ES Form 3.12, Emissions Allowance Inventory, additions section. Explain why in the expense month of May Kentucky Power acquired 287,442 allowances that are classified as P & E Transfers In. In addition, explain how the price per allowance for these allowances was determined.

15. Refer to ES Form 3.12, Emissions Allowance Inventory, additions section. During the expense months of May through October, Kentucky Power acquired 65,675 allowances classified as Other.

a. Describe the types of transactions reported in the Other category.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired ranged from $106.37 to $151.24. Explain how the price per allowance for this category of emissions allowance is determined.

16. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of May through October. Explain how the price per allowance was determined for Off-system Sales, as shown for each expense month. Indicate if any Off-system Sale of allowances was impacted or governed by the terms of the IAA.

17. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of May through October. Explain how the price per allowance was determined for SO2 Emissions, as shown for each expense month.

18. Provide the following information concerning the Emissions Allowance Inventory shown on ES Form 3.12 for the expense months of May through October. As used in these questions, current vintage year means the current vintage year plus any unused allowances remaining from previous vintage years.

a. Does the Allowance Activity in Month reflect both current vintage year and future vintage years allowances, or just the current vintage year allowances?

b. Does the Cumulative Balance reflect both the current vintage year and future vintage years allowances, or just the current vintage year allowances?

c. If the Emissions Allowance Inventory shown on ES Form 3.12 for May through October includes both current and future vintage year allowances, prepare a schedule separating the current vintage year allowances from the future vintage year allowances. This schedule should show the number of allowances and the dollar value of those allowances for the current and future vintage years. Additions and withdrawals may be shown in total, provided the sum of the current and future vintage years matches the amounts shown for that particular expense month on ES Form 3.12.

19. Provide the following information concerning Kentucky Power s debt and common equity balances as of December 31, 2000:

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.

Billing Period July 1, 2001 through December 31, 2001

20. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of May 2001 through December 2001. Use ES Form 1.0 as a model for this summary. The expense months of November and December 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 6-month review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

21. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the IAA in each month of the May through October expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

22. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11 for the expense months of May through October:

a. For the expense month of August, explain why the amount reported in the Scrubber Maintenance Cost, Account No. 512.8, is higher than other months of the review period.

b. For the expense month of October, explain why the amount reported in the Scrubber Maintenance Cost, Account No. 512.8, is lower than other months of the review period.

c. Explain the fluctuations in the Kentucky Power Capacity Deficit for the expense months of June through September.

23. Refer to ES Form 3.12, Emissions Allowance Inventory, additions section. During the expense months of May through October, Kentucky Power acquired 76,072 allowances classified as Other.

a. Describe the types of transactions reported in the Other category.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired ranged from $44.51 to $152.30. Explain how the price per allowance for this category of emissions allowance is determined.

24. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of May through October. Explain how the price per allowance was determined for Off-system Sales, as shown for each expense month. Indicate if any Off-system Sale of allowances was impacted or governed by the terms of the IAA.

25. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of May through October. Explain how the price per allowance was determined for SO2 Emissions, as shown for each expense month.

26. Provide the following information concerning the Emissions Allowance Inventory shown on ES Form 3.12 for the expense months of May through October. As used in these questions, current vintage year means the current vintage year plus any unused allowances remaining from previous vintage years.

a. Does the Allowance Activity in Month reflect both current vintage year and future vintage years allowances, or just the current vintage year allowances?

b. Does the Cumulative Balance reflect both the current vintage year and future vintage years allowances, or just the current vintage year allowances?

c. If the Emissions Allowance Inventory shown on ES Form 3.12 for May through October includes both current and future vintage year allowances, prepare a schedule separating the current vintage year allowances from the future vintage year allowances. This schedule should show the number of allowances and the dollar value of those allowances for the current and future vintage years. Additions and withdrawals may be shown in total, provided the sum of the current and future vintage years matches the amounts shown for that particular expense month on ES Form 3.12.

27. Refer to ES Form 3.12, Emissions Allowance Inventory. For the expense month of May, the Cumulative Balance Ending Inventory of emission allowances was reported as 1,111,678. For the expense month of June, Kentucky Power reported additions of 9,419 allowances and withdrawals of 9,881, for a net reduction in allowances of 462 for June. This should have produced a Cumulative Balance Ending

Inventory of emission allowances for the expense month of June of 1,111,216. Kentucky Power reported a Cumulative Balance Ending Inventory of emission allowances for the expense month of June of 1,111,409. Provide an explanation for this apparent discrepancy in the emissions allowance inventory balance and indicate the correct ending inventory balance for the expense month of June.

28. Provide the following information concerning Kentucky Power s debt and common equity balances as of December 31, 2001:

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.

<u>Billing Period January 1, 2002 through June 30, 2002</u>

29. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of November 2001 through June 2002. Use ES Form 1.0 as a model for this summary. The expense months of May and June 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 6-month review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

30. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the IAA in each month of the November 2001 through April

2002 expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

31. Refer to ES Form 3.10, Costs Associated with Big Sandy, Monthly Kentucky Air Emissions Fee, expense months of December 2001 and January 2002. Explain the change in the amounts recorded for the emissions fee in those months.

32. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11 for the expense months of November 2001 through April 2002:

a. For the expense month of December 2001, explain why the amount in Disposal Costs, Account No. 501.91, is higher than the amount for other months in the review period.

b. For the expense month of December 2001, explain why the amount in Lease Costs, Account No. 507, is lower than the amount for other months in the review period.

c. For the expense month of March 2002, explain why the amount reported in the Scrubber Maintenance Cost, Account No. 512.8, is lower than other months of the review period.

d. Explain the fluctuations in the Kentucky Power Capacity Deficit for the expense months of January and February.

33. Refer to ES Form 3.12, Emissions Allowance Inventory, additions section. During the expense months of November 2001 through April 2002, Kentucky Power acquired 52,141 allowances classified as Other.

a. Describe the types of transactions reported in the Other category.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired ranged from $74.91 to $334.97. Explain how the price per allowance for this category of emissions allowance is determined.

34. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of November 2001 through April 2002. Explain how the price per allowance was determined for Off-system Sales, as shown for each expense month. Indicate if any Off-system Sale of allowances was impacted or governed by the terms of the IAA.

35. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of November 2001 through April 2002. Explain how the price per allowance was determined for SO2 Emissions, as shown for each expense month.

36. Provide the following information concerning the Emissions Allowance Inventory shown on ES Form 3.12 for the expense months of November 2001 through April 2002. As used in these questions, current vintage year means the current vintage year plus any unused allowances remaining from previous vintage years.

a. Does the Allowance Activity in Month reflect both current vintage year and future vintage years allowances, or just the current vintage year allowances?

b. Does the Cumulative Balance reflect both the current vintage year and future vintage years allowances, or just the current vintage year allowances?

c. If the Emissions Allowance Inventory shown on ES Form 3.12 for November 2001 through April 2002 includes both current and future vintage year allowances, prepare a schedule separating the current vintage year allowances from the future vintage year allowances. This schedule should show the number of allowances and the dollar value of those allowances for the current and future vintage years. Additions and withdrawals may be shown in total, provided the sum of the current and future vintage years matches the amounts shown for that particular expense month on ES Form 3.12.

37. Refer to ES Form 3.12, Emissions Allowance Inventory. For the expense month of October 2001, the Cumulative Balance Ending Inventory of emission allowances was reported as 1,137,484. For the expense month of November 2001, Kentucky Power reported additions of 1,103 allowances and withdrawals of 4,357, for a net reduction in allowances of 3,254 for November. This should have produced a Cumulative Balance Ending Inventory of emission allowances for the expense month of November of 1,134,230. Kentucky Power reported a Cumulative Balance Ending Inventory of emission allowances for the expense month of November of 1,134,787. Provide an explanation for this apparent discrepancy in the emissions allowance inventory balance and indicate the correct ending inventory balance for the expense month of June.

38. In Case No. 1996-00489, the Commission ordered that Kentucky Power s weighted average cost of capital would remain fixed during each 6-month period, and would be reviewed and re-established during each 6-month review case. In accordance with this finding, provide the following information as of December 31, 1999:

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.

<u>Billing Period July 1, 1999 through June 30, 2001</u>

39. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of November 2000 through June 2001. Use ES Form 1.0 as a model for this summary. The expense months of May and June 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 6-month review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

40. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months of May 1999 through June 2001. Use ES Form 1.0 as a model for this summary. The expense months of May and June have been included in order to show any over- and under-recovery adjustments for the months included for the billing period under review. If needed, include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for this 2-year review. Include all supporting calculations and documentation for such an additional over- or under-recovery.

41. Refer to ES Form 3.0, Calculation of Current Period Revenue Requirement, third component. Kentucky Power reported a net gain from allowance sales in compliance with the IAA in each month of the November 2000 through April 2001 expense month period. Provide an explanation of how the gain reported in that expense month was calculated and describe the transaction(s) that was the source of the gain.

42. Refer to ES Form 3.10, Costs Associated with Big Sandy, Monthly Kentucky Air Emissions Fee, expense months of January and February 2001. Explain the change in the amounts recorded for the emissions fee in those months.

43. Provide the following information concerning the Gavin Scrubber Costs reported on ES Form 3.11, for the expense months of November 2000 through April 2001:

a. For the expense months of December 2000 through February 2001, explain why the amounts shown in the Disposal Cost, Account No. 501.91, are lower than other expense months during the review period.

b. For the expense months of December 2000, January 2001, and April 2001, explain why the amounts shown in the Lime Cost, Account No. 502.9, are lower than other expense months during the review period.

c. For the expense months of November 2000 and March 2001, explain why the amounts shown in the Scrubber Maintenance Cost, Account No. 512.8, are lower than other expense months during the review period.

d. Explain the change in the Kentucky Power Capacity Deficit noted during November 2000 through March 2001.

44. Refer to ES Form 3.12, Emissions Allowance Inventory, additional section. During the expense months of November 2000 through April 2001, Kentucky Power acquired 74,522 allowances classified as Other.

a. Describe the types of transactions reported in the Other category.

b. Explain why Kentucky Power acquired these additional allowances.

c. The average price per allowance acquired for the Other category ranged from $105.42 to $168.30. Explain how the price per allowance for this category of emissions allowance is determined.

45. Refer to ES Form 3.12, Emissions Allowance Inventory, withdrawals section, for the expense months of November 2000 through April 2001. Explain how the price per allowance was determined for SO2 Emissions, as shown for each expense month.

46. Provide the following information concerning the Emissions Allowance Inventory shown on ES Form 3.12 for the expense months of November 2000 through April 2001. As used in these questions, current vintage year means the current vintage year plus any unused allowances remaining from previous vintage years.

a. Does the Allowance Activity in Month reflect both current vintage year and future vintage years allowances, or just the current vintage year allowances?

b. Does the Cumulative Balance reflect both the current vintage year and future vintage years allowances, or just the current vintage year allowances?

c. If the Emissions Allowance Inventory shown on ES Form 3.12 for November 2000 through April 2001 includes both current and future vintage year allowances, prepare a schedule separating the current vintage year allowances from the future vintage year allowances. This schedule should show the number of allowances and the dollar value of those allowances for the current and future vintage years. Additions and withdrawals may be shown in total, provided the sum of the current and future vintage years matches the amounts shown for that particular expense month on ES Form 3.12.

47. Refer to ES Form 3.12, Emissions Allowance Inventory. For the expense month of February 2001, the Cumulative Dollar Balance Ending Inventory of emission allowances was reported as $10,532,969. For the expense month of March 2001, Kentucky Power reported additions of $746,911 and withdrawals of $761,780, for a net reduction of $14,869 for March. This should have produced a Cumulative Dollar Balance Ending Inventory of emission allowances for the expense month of March of $10,518,100. Kentucky Power reported a Cumulative Dollar Balance Ending Inventory of emission allowances for the expense month of March of $10,517,300.

a. Provide an explanation for this apparent discrepancy in the dollar value of the emissions allowance inventory and indicate the correct dollar value of the inventory for the expense month of March.

b. If the correct dollar value for the emission allowance ending inventory is an amount other than that reported by Kentucky Power, provide the adjustments to restate the dollar value of the emissions allowance inventory for all effected expense months. Also determine the impact, if any, on the over- or under-recovery for each review period impacted by the correction.

48. Provide the following information concerning Kentucky Power s debt and common equity balances as of June 30, 2001:

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.

49. In Case No. 1996-00489, the Commission ordered that Kentucky Power s rate of return on common equity for the environmental surcharge would be 11.5 percent, and would be reviewed for reasonableness during the 2-year review case. In accordance with this finding:

a. Does Kentucky Power believe that the 11.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.

b. If no to part (a), what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis supporting Kentucky Power s position.

50. KRS 278.183(3) provides that during the 2-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per KWH approach. Taking this into consideration, explain how the surcharge amount should be incorporated into Kentucky Power s base rates. Include any analysis that Kentucky Power believes supports its position.

51. When determining the monthly amount to be recovered through the surcharge, Kentucky Power s environmental surcharge mechanism compares a base period revenue requirement with a current period revenue requirement.

a. Would Kentucky Power agree that, on a going-forward basis, the base period revenue requirement calculation should be modified to reflect the incorporation of a surcharge amount into existing base rates? Explain the response.

b. Other than recognizing that a surcharge amount has been incorporated into existing base rates, does Kentucky Power believe any other modification to the surcharge mechanism or monthly reporting forms is necessary? If yes, explain each modification and the reason(s) it is necessary.

52. In Case No. 2002-00193,[1] the Commission authorized a roll-in of Louisville Gas and Electric Company s (LG&E) environmental surcharge using the base-current methodology. The methodology approved in that case provides:

- The roll-in of the surcharge would be in a manner similar to the fuel adjustment clause.
- The base period and current period revenue requirements would be expressed as factors, with the difference between the two factors being applied to customer bills.
- The base period would reflect the 12-month period ending with the last month of the 2-year surcharge review.

[1] Case No. 2002-00193, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001.

- The base period revenue requirement would be an annual amount, and the base period revenues would be the total jurisdictional revenues excluding surcharge revenues for the 12-month period.

- The base period surcharge factor would be calculated by dividing the 12-month jurisdictional revenue requirement by the 12-month jurisdictional revenues. The base period surcharge factor would only be calculated at the time of roll-in.

- The jurisdictional allocation ratio would be based on the totals for 12 months.

- The current period revenue requirement would reflect the current expense month. Adjustments for retirements and replacements that had occurred since the roll-in would be recognized in the current period calculations. The current period revenues would be the average monthly jurisdictional revenues.

- The current period surcharge factor would be calculated by dividing the current period revenue requirement by the current average monthly jurisdictional revenues.

Would the approach adopted for LG&E, or a similar approach, constitute a reasonable approach to deal with the roll-in and the operation of the surcharge after a roll-in for Kentucky Power? Explain the response.