

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.
POWER COMPANY FOR THE TWO-YEAR)	2012-00273
BILLING PERIOD ENDING JUNE 30, 2011)	

O R D E R

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), the Commission must review and evaluate the past operations of the environmental surcharge at two-year intervals. 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. Therefore, the Commission hereby initiates the two-year review of Kentucky Power's surcharge as billed from July 1, 2009 through June 30, 2011.²

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky Power is to file prepared direct testimony: (a) in support of the reasonableness of 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 Wastes and By-Products (Ky. PSC May 27, 1997).

² Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2009 through June 2011 are based on costs incurred from May 2009 through April 2011.

application of its environmental surcharge mechanism during the time period under review; and (b) on a proposal to roll-in its environmental surcharge into existing base rates. In addition, Kentucky Power is to file its response to the information requested in Appendix B, attached hereto and incorporated herein.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its original compliance plan and surcharge mechanism. As a result, the environmental surcharge provides recovery of the incremental costs associated with the original and first amendment to the compliance plan as well as the costs associated with the second and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS HEREBY 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, 2009 through June 30, 2011. At the public hearing, there shall be no opening statements or summaries of testimony.
3. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.
4. Any party filing testimony shall file an original and ten copies.

5. a. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

6. Within seven days of the Commission's 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 the review period.

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.

8. The case records of Case Nos. 1996-00489, 2002-00169, 2004-00081, 2005-00068, 2005-00341, and 2006-00307³ shall be incorporated by reference into the record of this case.

9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

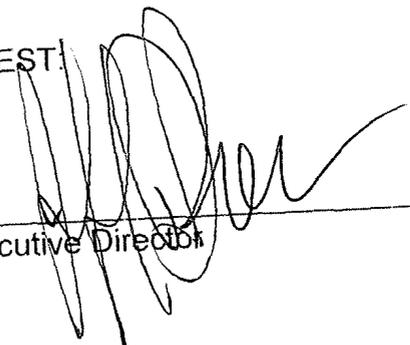
10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

³ Case No. 1996-00489, In the Matter of 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 Wastes and By-Products (Ky. PSC May 27, 1997); Case No. 2002-00169, The Application of Kentucky Power d/b/a American Electric Power for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Mar. 31, 2003); Case No. 2004-00081, Motion of Kentucky Power Company d/b/a American Electric Power for Approval of Additional Operating Expenses Associated with Its Environmental Compliance Plan (Ky. PSC Apr. 16, 2004); Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Oct. 17, 2005); Case No. 2005-00341, General Adjustments in Electric Rates of Kentucky Power Company (Ky. PSC Mar. 14, 2006); and Case No. 2006-00307, The Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Jan. 25, 2007).

By the Commission

ENTERED *R*
JUL 23 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2012-00273

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00273 DATED **JUL 23 2012**

- Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 08/03/2012
- An informal technical conference is to begin at 1:30 p.m., Eastern Daylight Savings Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues..... 08/16/2012
- All additional requests for information to Kentucky Power shall be filed no later than..... 08/30/2012
- Kentucky Power shall file responses to additional requests for information no later than..... 09/13/2012
- Intervenor testimony, if any, in verified prepared form, shall be filed no later than..... 09/27/2012
- All requests for information to Intervenors shall be filed no later than..... 10/11/2012
- Intervenors shall file responses to requests for information no later than..... 10/25/2012
- Public Hearing is to begin at 10:00 a.m., Eastern Standard 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..... To be scheduled
- Briefs, if any, shall be filed by To be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00273 DATED JUL 23 2012

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales is reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For the last six expense months of the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. In Case No. 1996-00489, the Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be reviewed for reasonableness during the two-year review case. Currently, the rate of return on common equity is 10.5 percent.

a. Does Kentucky Power believe that the 10.5 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 and testimony supporting Kentucky Power's position.

4. Provide the following information as of April 30, 2011 in hard copy and in electronic format with the formulas intact and unprotected.

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

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

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

d. Determine the weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

5. KRS 278.183(3) provides that, during the two-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. Does Kentucky Power believe any additional surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review?

b. If yes to part (a), provide the additional surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Explain how the surcharge amount should be incorporated into the base rates. Include all supporting calculations, workpapers, and assumptions as well as any analysis that Kentucky Power believes support its position.

6. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13. Explain the primary reason(s) for the fluctuations in the operating expenses during the last six expense months in this review period.

7. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO₂ Emission Allowance Consumption. Explain the reason(s) for the fluctuations in SO₂ allowance expenses during the last six months of the review period.

8. Refer to ES Form 3.11, SO₂ Emissions Allowance Inventory for the expense month of November 2010. The section for Additions shows 1,019 EPA Allowances were added for the month, but this amount is not reflected in the Cumulative Balance column for that line item or in the ending inventory. Explain this discrepancy.

9. Refer to ES Form 3.11, SO₂ Emissions Allowance Inventory.

a. On the lines referenced as SO₂ Emissions Allowances Consumed by Kentucky Power, explain the difference between the 2009 and Prior allowances, and the 2010 to 2014 allowances.

b. Explain Kentucky Power's decision process as to the group from which allowances will be consumed, and why allowances are used from both groups in a given month.

10. Reference ES Form 3.11 for the months in this review period.

a. For each month in the two year review period provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10. For example in expense month April 2011 this amount is \$1,824,315.

b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 10.a.

11. Provide the actual average residential customer's monthly usage. Based on this usage amount, provide the dollar impact any over/under recovery will have on the average residential customer's bill for the requested recovery period.

12. In Case No. 2011-00031,⁴ Kentucky Power proposed to recover costs incurred at several Ohio Power Company plants for polymer, lime hydrate and steam expense through the environmental surcharge. After further review, Kentucky Power withdrew its proposal. For the last six months in this review period, it appears these same expenses were included in Kentucky Power's monthly filings and therefore recovered through the environmental surcharge.

a. Explain whether Kentucky Power's position regarding recovery of these expenses has changed since the final order was issued in Case No. 2011-00031.

b. Provide an analysis, by month, for the last six months of the review period which includes each expense item and the dollar amount of any over-recovery.

⁴ Case No. 2011-00031, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company For the Six-Month Billing Period Ending December 31, 2010 (Ky. PSC Apr. 16, 2012).

c. How does Kentucky Power propose to refund any over-recovery of polymer, lime hydrate and steam expense?

13. In Case No. 2011-00031, Kentucky Power determined that it had not revised the capacity deficit amount and the company surplus weighting amounts on Form 3.14, which resulted in an over-recovery of the environmental surcharge. For the last six months of this review period, it appears that the capacity deficit amount and the company surplus weighting amounts shown on Form 3.14 have not been revised from those used in the review period covered in Case No. 2011-00031.

a. Confirm that Kentucky Power did not revise the capacity deficit amount and the company surplus weighting amounts for the last six months of this review period.

b. Provide an analysis of the effect on the environmental surcharge recovered if the capacity deficit amount and the company surplus weighting amounts are revised to the correct amounts.

14. Refer to Forms 3.10 and 3.13 of the monthly environmental surcharge filing. It appears that Kentucky Power is earning one-twelfth (0.88 percent) of the full annual rate of return of 10.50 percent authorized on its cash working capital allowance. Confirm that this accurately describes the results under Kentucky Power's current methodology.

15. Describe the effect that the remand of the Cross-State Air Pollution Rule in December 2011 will have on Kentucky Power's inventory of emission allowances both as to the number of allowances and the dollar value of those allowances.

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