

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 SIX-MONTH)	2013-00141
BILLING PERIOD ENDING DECEMBER 31, 2012)	

ORDER

On May 14, 2013, the Commission initiated a six-month review of Kentucky Power Company's ("Kentucky Power") environmental surcharge¹ as billed to customers for the six-month period July 1, 2012 to December 31, 2012.² Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable pursuant to KRS 278.183(1).

The Commission issued a procedural schedule on May 14, 2013 that provided for discovery, the filing of prepared testimony, an informal conference and intervenor testimony. Kentucky Power filed prepared testimony, and responded to requests for

¹ Kentucky Power was authorized to implement an environmental surcharge in 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 (Ky. PSC May 27, 1997).

² Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings from July 2012 through December 2012 are based on costs incurred from May 2012 through October 2012.

information propounded by Commission Staff. On June 27, 2013, an informal conference was held at the Commission's offices to discuss the issues in this case. There were no parties requesting intervenor status to this proceeding. On July 29, 2013, Kentucky Power filed a request that this case be submitted for decision by the Commission on the record, stating that there are no material issues of fact warranting a hearing in this matter. Since there are no intervenors in this case and a hearing is not necessary in the public interest, the Commission will adjudicate this case based on the evidence of record.

SURCHARGE ADJUSTMENT

The May 14, 2013 Order initiating this case indicated that, since the period under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. Kentucky Power states that it had a net under-recovery of its environmental costs during the expense months of May 2012 through October 2012 in the amount of \$61,013.³ It proposes that the net under-recovery be collected by increasing the total jurisdictional environmental surcharge amount by a one-time adjustment of \$61,013 in its first monthly environmental surcharge filing following the Commission's decision in this proceeding.⁴

Having reviewed the record, the Commission finds Kentucky Power's calculation of a net under-recovery of \$61,013 to be reasonable. The Commission also finds reasonable Kentucky Power's proposal to collect the under-recovery amount by a one-

³ Direct Testimony of Lila P. Munsey on Behalf of Kentucky Power Company, filed June 6, 2013 at p. 3.

⁴ *Id.*, at p. 9.

time adjustment of \$61,013 in its first monthly environmental surcharge filing following the date of this Order. Kentucky Power states that the average residential customer's monthly usage for 2012 was 1,325 kWh.⁵ Kentucky Power calculates that for a residential customer using 1,325 kWh per month, the impact of the under-recovery if the difference had been incorporated into the June 2013 bill would have been to increase the average-usage residential bill by approximately \$0.17.⁶

RATE OF RETURN

In Case No. 1996-00489, the Commission found that the debt portion of Kentucky Power's weighted average cost of capital should be reviewed and reestablished during each six-month review case, and that the rate of return on common equity would remain fixed and subject to review during the two-year environmental surcharge reviews. The weighted average cost of capital constitutes the rate of return applicable to Kentucky Power's environmental compliance rate base.⁷

Kentucky Power provided the outstanding balances for its long-term debt, short-term debt, accounts receivable financing, and common equity as of October 31, 2012, the last expense month of the review period. It also provided the blended interest rates for the long-term debt, short-term debt, and accounts receivable financing as of October

⁵ Kentucky Power's response to Commission Staff's First Request for Information ("Staff's First Request"), Item 8.

⁶ *Id.*

⁷ Case No. 1996-00489, 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), p. 26. This weighted average cost of capital is applied only to the environmental compliance rate base associated with plant installed at Kentucky Power's Big Sandy generating units.

31, 2012.⁸ Using this information, along with the currently approved 10.50 percent return on equity,⁹ Kentucky Power calculated a weighted average cost of capital, before income tax gross-up, of 8.05 percent.¹⁰ Kentucky Power also provided its updated income tax gross-up factor of 1.5490,¹¹ reflecting the methodology approved in Case No. 2005-00068.¹²

The Commission has reviewed Kentucky Power's determination of its weighted average cost of capital and finds the 8.05 percent calculation to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor of 1.5490 and finds that it is consistent with the approach approved in Case No. 2005-00068. Therefore, the Commission finds that the weighted average cost of capital of 8.05 percent and the income tax gross-up factor of 1.5490, which produce an overall grossed-up return of 10.62 percent,¹³ should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

⁸ Kentucky Power's response to Staff's First Request, Item 3.

⁹ Case No. 2009-00459, Application of Kentucky Power Company for a General Adjustment of Electric Rates (Ky. PSC Jun. 28, 2010).

¹⁰ Kentucky Power's response to Staff's First Request, Item 3.

¹¹ Kentucky Power's response to Staff's Second Request for Information ("Staff's Second Request"), Item 1.

¹² 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).

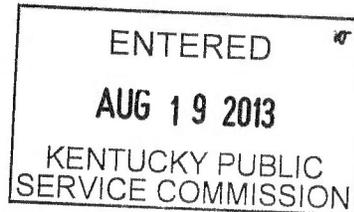
¹³ Kentucky Power's response to Staff's Second Request, Item 1.

IT IS THEREFORE ORDERED that:

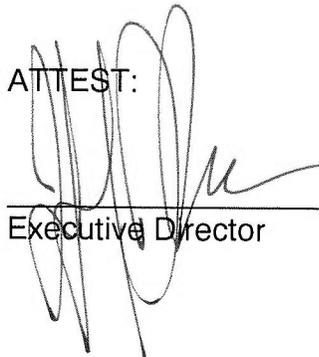
1. Kentucky Power shall collect the under-recovery amount by a one-time adjustment to its jurisdictional environmental revenue requirement in the amount of \$61,013 in the first billing month following the date of this Order.

2. Kentucky Power shall use a weighted average cost of capital of 8.05 percent, a tax gross-up factor of 1.5490, a return on equity rate of 10.50 percent, and an overall grossed-up return of 10.62 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

By the Commission



ATTEST:



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