COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

AN EXAMINATION BY THE PUBLIC SERIVCE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF KENTUCKY	)	CASE NO. 2013-00325
POWER COMPANY FOR THE TWO YEAR	)	
BILLING PERIOD ENDING JUNE 30, 2013	)	

KENTUCKY POWER COMPANY RESPONSE TO
COMMISSION STAFF'S SECOND SET OF DATA REQUESTS

December 11, 2013

VERIFICATION

The undersigned, Lila P. Munsey, being duly sworn, deposes and says she is the Manager, Regulatory Services for Kentucky Power, that she has personal knowledge of the matters set forth in the forgoing responses for which she is the identified witness and that the information contained therein is true and correct to the best of her information, knowledge, and belief

Lila P Munsey

Lila P. Munsey

COMMONWEALTH OF KENTUCKY	)	
	)	Case No. 2013-00325
COUNTY OF FRANKLIN	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Lila P. Munsey, this 11th day of December 2013.

Judy K Rosquist 481393

Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Commission Staff's First Request for Information ("Staff First Request"), Item No. 9, Attachment 1, page 2 of 11. State whether the Company agrees with the following statements: A primary reason for the re-bucketing of yearly consumption for final submission is that the Company does not know the tax basis of its 2011 SO2 emission allowances inventory until after the final step of the AEP System Interim Allowance Agreement ("IAA") settlement, which is the System Allowance Bank Purchase/(Sale) calculation, performed in December of 2011. For that reason, throughout 2011 the Company reflects its best estimate of the monthly cost of SO2 emission allowances consumed. In January of the following year, when the allowances are submitted to Environmental Protection Agency ("EPA"), an adjusting entry is required to adjust the estimated annual cost of allowances consumed with the actual cost of allowances consumed.

RESPONSE

Yes, the Company agrees. The January adjusting entry is required to correctly capture the cost of the actual emission allowances sent to the EPA. For example, the total cost of the allowances sent to the EPA for 2011 compliance equals A) the 12 monthly accounting consumption estimates entered during 2011 plus B) the adjustment entered in January 2012. The adjustment can be sizable depending upon the inventory impacts of the Interim Allowance Agreement, which is settled immediately after each December's estimated consumption entry.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Commission Staff's First Request for Information, Item No. 11, and the Stipulation and Settlement Agreement ("Stipulation") approved in Case No. 2012-00578.[1] Paragraph 5 of the Stipulation states, "Effective January 1, 2014, the monthly Environmental Surcharge factor (Tariff E.S.) will be fixed and maintained at 0.00% until new base rates are set by the Commission." Provide an explanation describing the Company's interpretation of this provision as it relates to whether the January 1, 2014 Environmental Surcharge factor, which is to be fixed and maintained at 0.00 percent, is the billing-month factor or expense-month factor.

RESPONSE

The Stipulation and Settlement Agreement ("Stipulation") does not expressly address whether the 0.00 percent environmental surcharge will begin with the January 1, 2014 billing month or the January 1, 2014 expense month. The Company's response to Commissions Staff's First Request for Information, Item No. 11 was premised upon its understanding that the 0.00 percent was to begin with the November 2013 expense month; that is, it would first appear on the customers' January 2014 bills, but would have a slight factor to take into account the over/(under) recovery for September 2013. This would also be true for the December 2013 expense month which would appear on the customers' February 2014 bills, but would again have a slight factor to take into account the over/(under) recovery for October 2013. (The Company inadvertently used the wording "over/(under) collected for the expense months of November and December 2013" in its Item No. 11 response and the months should have been September and October 2013). After reviewing the wording in the Stipulation prior to the informal conference, the Company recognized the ambiguity in paragraph 5 of the Stipulation. The Company believes that the recovery or refund of any under/over recovery for the September and October 2013 expense months is the most appropriate resolution and matches the Company's understanding of the provision. This will also allow for any adjustment approved by the Commission in this instant case to be recovered currently versus being set up as a regulatory asset to be recovered at the end of the Stipulation period (July 2015).

To be consistent, when the Stipulation period has ended and assuming new base rates are to be effective July 2015, the expense month of May 2015 will be used for the ES calculation.

WITNESS: Lila P Munsey

[1] Case No. 2012-00578, Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) all other Required Approvals and Relief (Ky. PSC Filed Dec. 19, 2012).

Kentucky Power Company

REQUEST

Paragraph 5 of the Stipulation states, "Effective January 1, 2014, the monthly Environmental Surcharge factor (Tariff E.S.) will be fixed and maintained at 0.00% until new base rates are set by the Commission." Does the Company agree there may be benefit to both the Company and the Commission for the Company to continue filing the monthly environmental surcharge filings reflecting the actual monthly environmental costs, and that ES Form 1.00, line 10, will reflect a monthly factor of 0.00 percent?

RESPONSE

The Company agrees that the monthly environmental surcharge filings should continue to be made to reflect actual monthly environmental costs that otherwise would be recovered through Tariff E.S. but for the Stipulation and Settlement Agreement in Case No. 2012-00578. The Company also agrees that ES Form 1.00, line 10, should reflect a monthly factor of 0.00 percent (except for January and February 2014) until new base rates are set by the Commission. The Company also suggests that a footnote be added to the filed ES Form 1.00 to show the calculated value during the period the Environmental Surcharge factor is being set to zero. Please see response to KPSC 2-2 for detail on January and February 2014 exception.

WITNESS: Lila P Munsey

Kentucky Power Company

REQUEST

Because the AEP-East System maintains its SO^2 emission allowance inventory by operating company, provide an explanation, along with an illustrative example, of how the quantity of SO^2 emission allowances associated with the Mitchell plant transfer will be allocated to Kentucky Power, along with the associated costs of the SO^2 emission allowances.

RESPONSE

On the date of the 50% Mitchell plant asset transfer, Ohio Power will transfer SO^2 emission allowances to Kentucky Power. The transfer will be priced at Ohio Power's inventory average cost for each allowance, resulting in no gain or loss.

The EPA grants SO^2 emission allowances 30 years in advance. Thus, Ohio Power has allowances with vintage years up to 2043. Of the total EPA allocation awarded to Ohio Power for each year, 38,651 allowances are designated by the EPA as Mitchell allowances. For vintage years 2015 through 2043, Ohio has no inventory costs because these years include only free EPA-awarded allowances. Fifty percent of 38,651, or **19,326, allowances will be transferred to Kentucky Power for each of these vintage years at no cost**.

At the time of the transfer, all of Ohio Power's 2014 and prior vintages will have been commingled, and the portion earmarked to send to the EPA for 2013's compliance obligation will have been removed from the inventory tables. Of this remaining inventory, 6.74% will be transferred from Ohio Power to Kentucky Power. This percentage is derived from the 2015 EPA allocation, where Mitchell's 38,651 allowances represented 13.48% of 286,748 total allowances awarded to Ohio Power. Fifty percent of 13.48%, or 6.74%, will be used to calculate the transfer to Kentucky Power. This percentage allocator of **6.74% will be applied to Ohio Power's total current inventory (all 2014 and prior vintages) for both quantity and dollars**. Due to AEP's inventory accounting method of average unit cost, the transfers will produce no gain or loss.

As of the date of this response, Ohio Power's quantities of allowances that will exist on the transfer date is unknown. However, as an illustrative example, assume Ohio Power has 1,000,000 SO^2 emission allowances in its current inventory with an average unit cost of $45 at the time of the Mitchell plant asset transfer. (Current inventory to transfer is 1,000,000 X 6.74% = 67,400.) Further detail regarding this example is shown in Attachment 1 to this response.

WITNESS: Lila P Munsey

	Vintage Year	Quantity	Unit Price	Transfer to KY
Current	2014 & prior	67,400	$45.00	$3,033,000
Non-Current	2015	19,326	$0.00	$0
Non-Current	2016	19,326	$0.00	$0
Non-Current	2017	19,326	$0.00	$0
Non-Current	2018	19,326	$0.00	$0
Non-Current	2019	19,326	$0.00	$0
Non-Current	2020	19,326	$0.00	$0
Non-Current	2021	19,326	$0.00	$0
Non-Current	2022	19,326	$0.00	$0
Non-Current	2023	19,326	$0.00	$0
Non-Current	2024	19,326	$0.00	$0
Non-Current	2025	19,326	$0.00	$0
Non-Current	2026	19,326	$0.00	$0
Non-Current	2027	19,326	$0.00	$0
Non-Current	2028	19,326	$0.00	$0
Non-Current	2029	19,326	$0.00	$0
Non-Current	2030	19,326	$0.00	$0
Non-Current	2031	19,326	$0.00	$0
Non-Current	2032	19,326	$0.00	$0
Non-Current	2033	19,326	$0.00	$0
Non-Current	2034	19,326	$0.00	$0
Non-Current	2035	19,326	$0.00	$0
Non-Current	2036	19,326	$0.00	$0
Non-Current	2037	19,326	$0.00	$0
Non-Current	2038	19,326	$0.00	$0
Non-Current	2039	19,326	$0.00	$0
Non-Current	2040	19,326	$0.00	$0
Non-Current	2041	19,326	$0.00	$0
Non-Current	2042	19,326	$0.00	$0
Non-Current	2043	19,326	$0.00	$0

Kentucky Power Company

REQUEST

Explain what will happen to the SO2 emission allowances issued annually by the EPA to Kentucky Power for the Big Sandy plant when Big Sandy Unit No. 2 is retired.

RESPONSE

Title IV SO2 allowances are issued to affected sources 30 years in advance. Thus, companies currently have SO2 allowances in their EPA Facility accounts through vintage year 2043. Under the current Title IV program, companies continue to obtain SO2 allowances (30 years out) each calendar year even after an affected unit retires. These allowances currently have minimal market value due to the level of SO2 controls installed since this program began in the 1990s, resulting in an excess of available allowances. Kentucky Power will have direct access to the Big Sandy Unit 2 allowances once the unit is retired and would either sell them through the market or utilize them at another Kentucky Power unit for compliance needs. If sold through the market, Kentucky Power would flow any gains or losses on the allowances through the environmental surcharge calculation.

WITNESS: Lila P Munsey