COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION OF THE APPLICATION	**)**
OF THE FUEL ADJUSTMENT CLAUSE OF	**)**
KENTUCKY POWER COMPANY FROM	**) CASE NO. 2014-00225**
NOVEMBER 1, 2013 THROUGH APRIL 30, 2014	**)**

KENTUCKY POWER COMPANY RESPONSES TO COMMISSION STAFF'S NOVEMBER 12, 2014 POST HEARING DATA REQUESTS

November 26, 2014

VERIFICATION

The undersigned, Kelly D. Pearce, being duly sworn, deposes and says he is the Director Contract and Analysis for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge and belief

Kelly D. Pearce
____
Kelly D. Pearce

STATE OF OHIO)
) Case No. 2014-00225
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Kelly D. Pearce, this the 24th day of November 2014.

Charmaine S. Hamilton
____
Notary Public

My Commission Expires: ________________

NOTARIAL SEAL STATE OF OHIO

CHARMAINE S. HAMILTON
Notary Public, State of Ohio
My Commission Expires 05-14-2017

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief

Ranie K. Wohnhas

Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY	)	
	)	Case No. 2014-00225
COUNTY OF FRANKLIN	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 24th day of November 2014.

Judy K. Rosquist 481393

Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Please provide a schedule that shows for each month of 2014 for which data is available the following:

(a). the 60 % portion of off-system sales margins that customers would have received under the prior 60/40 split but for the fact that the Company is retaining 100% of the off-system sales margins in accordance with the Stipulation and Settlement Agreement approved by the Commission in Case No. 2012-00578;

(b). the bill credits (or charges) that Kentucky retail customers would have received under the environmental surcharge if the surcharge had not been reset to zero in accordance with the Stipulation and Settlement Agreement in Case No. 2012-00578, and

(c). the amount recovered by the Company via the Asset Transfer Rider in accordance with the Stipulation and Settlement Agreement in Case No. 2012-00578.

RESPONSE

Attachment 1 to this response provides the requested information.

a. The Company files its system sales clause filings on a monthly basis. However, the monthly filings do not reflect the portion of the Mitchell environmental expenses properly allocated to off-system sales. These expenses would have reduced the system sales margins as reported monthly. The 60% share of the system sales margins that the customers would have received net of the Mitchell environmental expenses is shown in Column 4 of Attachment 1.

b. The Company files its Environmental Surcharge filings on a monthly basis. However, the monthly filings do not reflect the Mitchell environmental expenses. Column 6 of Attachment 1 reflects only the Big Sandy and Rockport environmental surcharge amounts. If the Stipulation and Settlement Agreement in Case No. 2012-00578 (Settlement Agreement) had not been reached, the Company would have sought to include the Mitchell environmental expenses in its environmental surcharge. Column 7 identifies the Mitchell environmental expenses that would have been allocated to retail customers and recovered through the environmental surcharge. Column 8 identifies the total retail environmental expenses that would have been recovered through the environmental surcharge had it not been for the Settlement Agreement.

c. The Asset Transfer Rider revenues collected through October 2014 are provided in Column 5 of Attachment 1.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please provide the supporting calculations for the return on equity amounts identified in the table on page 13 of the rebuttal testimony of Ranie K. Wohnhas.

RESPONSE

Please see KPSC_Staff_PH_3_Attachment1 to this response.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please provide the following:

(a) the amount of no-load costs were included in Attachment 1 to KPSC 5-10 in Case No. 2012-00578; and

(b) the amount of no load costs shown in KPSC 3-9 (the revised version of Attachment 1 to Staff 5-10 prepared for this case.)

RESPONSE

a. Attachment 1 at Line 3 to Staff Data Request 5-10 in case No. 2012-00578 identified $16.75 million as an estimated total fuel cost savings to Kentucky Power's retail customers from replacing Big Sandy with the Company's 50% undivided interest in the Mitchell generating Station. The Company prepared the fuel costs savings estimate shown on Line 3 of Attachment 1 to the Company's Response to KPSC 5-10 by calculating the difference in total fuel costs between Mitchell and Big Sandy (a savings of approximately $2.50/MWh – based in large part on the ability of the Mitchell plant to utilize low cost, higher sulfur fuels) and multiplying that savings rate by the 2012 jurisdictional kWh sales of 6.7 GWh. This was a simple comparison using actual data for 2012.

The source of the $16.75 million calculation was made clear by Note G to Attachment 1 to the Company's Response to Staff Data Request 5-10 which refers to Paragraph 2 of the July 2, 2013 Stipulation and Settlement Agreement. The relevant language of that paragraph provides: "Because of the anticipated lower fuel costs of Mitchell Units 1 and 2 vis-à-vis the anticipated fuel costs of the Big Sandy Units, the transfer of the Mitchell units to Kentucky Power is expected to provide Kentucky Power customers with the benefit of reduced fuel costs of approximately $2.50/MWh." The nature of the analysis was further emphasized by Company Witness Wohnhas upon cross-examination by Vice-Chairman Gardner on July 11, 2013:

Q. Okay. And is there – will – in the Mitchell fuel savings in line 3, where – now, that's the savings because of using Mitchell coal; is that right? Or the lower sulfur coal. Higher sulfur coal.

A. It's the higher sulfur coal, which is a cheaper – cheaper coal per MMBtu.[1]

A more detailed analysis of the net energy cost differences would have factored in no-load costs as well as unit dispatch utilizing projections regarding 2014 unit outages, fuel contracts, and energy market prices. No such analysis was performed in connection with Case No. 2012-00578, the settlement negotiations leading to July 2, 2013 Stipulation and Settlement Agreement, or the July 10-12, 2013 hearing in that case. The Company subsequently prepared a net energy cost analysis in 2014 in connection with this case, using the projections for 2014 unit outages, fuel contracts, and energy market prices that existed at the time of the settlement negotiations with respect to Case No. 2012-00578. Attachment 1 to this response is a spreadsheet illustrating the results of the analysis. The analysis shown on Attachment 1 to this response indicates that adding a 50% undivided interest in the Mitchell generating station to Kentucky Power's generation fleet would have produced approximately $6.51 million in ***projected*** net energy cost savings in 2014 [99% x (Column (e), Line (52) (Total Net Energy Cost With Mitchell) less Column (e), Line (18) (Total Net Energy Cost Without Mitchell))] for native load customers using the Company's existing fuel cost allocation methodology. As such, these savings reflect no load costs.

The analysis shown on Attachment 1 to this response also shows that for the first four months of 2014 the projected net energy cost savings following the addition of the Company's 50% undivided interest in the Mitchell generating station to Kentucky Power's generation fleet shows ***projected*** January-April 2014 net energy cost savings using the Company's existing no load cost allocation methodology of approximately $2.82 million. This forecasted savings compares to the actual savings of approximately $9.9 million calculated by Company Witness Pearce in Exhibit KDP-5 of his rebuttal testimony in this case.

(b) Based on the wording of KPSC Data Request 3-9, the Company included the no load costs for the Company's share of the Mitchell Units alone in a revised version of Attachment 1 to Staff 5-10 in Case No. 2012-00578. In doing so, the Company did not reflect the replacement of Big Sandy Unit 2 with the 50% undivided interested in Mitchell. As noted on Attachment 1 to

[1] Transcript, In the Matter of: 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 Requirements; and (5) All Other Required Approvals and Relief, Case No. 2012-00578 at 335 (July 11, 2013); Video Recording, In the Matter of: 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 Requirements; and (5) All Other Required Approvals and Relief, Case No. 2012-00578 at 10:51:30-10:58:21 (July 11, 2013).

Staff 3-9, the Company added an incremental $38,252,000 for Mitchell no load cost in Column 2. This number was based on data obtained from a twelve-month period ending March 31, 2013 to coincide with the other jurisdictional data in Staff 5-10, Attachment 1.

The context of including the $38,252,000 in Mitchell no load costs on this table is important in two regards. First, because the $16.75 million decrease in total fuel cost shown in Column 2 of the table reflects replacing Big Sandy with Mitchell, assessing the increase in Mitchell no load costs without accounting for the corresponding decrease in Big Sandy no load costs (identified as $32,967,000 in Column 3) is not an apples to apples comparison. As discussed in response to part (a) above, the $16.75 million was the result of a simple calculation based only of the different costs of the fuel blends at the two units and historical sales numbers.

Second, and more importantly, evaluating only the increase in no load costs from adding Mitchell without accounting for the benefits that the Company's customers have enjoyed as a result of having first call on cost-based generation is inappropriate. While Column 2 of Attachment 1 to the Company's response to Staff 5-10 in Case No. 2012-00578 reflected an estimate of fuel savings that would have been experienced had Kentucky Power's interest in Mitchell replaced Big Sandy Unit 2, the reality of the interim period – acknowledged by every party to Case No. 2012-00578 – is that Kentucky Power's customers will have access to both Big Sandy Unit 2 and Mitchell until Big Sandy Unit 2's planned retirement on May 31, 2015. During this interim period, Kentucky Power's customers have in large part been shielded from the volatility of the market during periods of extreme demand. This benefit was quantified by Company Witness Pearce in this case as being nearly $10 million in avoided costs for Kentucky Power's customers. While Kentucky Power's customers paid approximately $13 million in additional no load costs from Mitchell during the review period, the first right of access to every unit Kentucky Power has available allowed the Company to avoid over $24 million in market purchases.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please update Attachment 2 to KSPC 1-29 to provide no-load costs through the current month in the same format as the original response.

RESPONSE

Please refer to KPSC_Staff_PH_5_Attachment1 to this response for the requested information.

WITNESS: Kelly D Pearce

Kentucky Power Company

REQUEST

Please provide an update to KPSC 2-4 Attachment 3 that reflects both the allocation of the no-load costs and the other incremental costs between no-load costs and unit minimums.

RESPONSE

Please refer to KPSC_Staff_PH_6_Attachment1 to this response for the requested information.

The Company notes that while no load cost are not associated with any MWhs of output, the incremental cost below the unit minimums <u>are</u> associated with certain MWhs of production.

The total cost of the units at their minimums are not "theoretical" in any sense because all of the units can, by definition, normally operate at their unit minimums with a given amount of fuel input and a number of MWhs of output. As such, to allocate the total minimum cost (including no load cost plus the incremental cost up to the minimums) across all of the generation (both below and above the minimums) effectively leads to a subsidy, whereby certain MWhs are being allocated not only their own fuel production costs, but a portion of the costs utilized to produce other MWhs. Such an allocation would be in direct conflict with cost causality.

Consequently, the illustrated allocation would lead to a virtual complete separation from the units' heat input curves that reflect the true input/output physical cost of the dispatch. As such, this allocation would be unjust and unreasonable, and lack any logical basis.

WITNESS: Kelly D Pearce

Kentucky Power Company

REQUEST

Please provide the work papers supporting the calculations shown on Exhibit KDP-5.

RESPONSE

Please refer to KPSC_Staff_PH_7_Attachment 1 and KPSC_Staff_PH_7_Attachment 2 to this response for the requested information.

WITNESS: Kelly D Pearce