VERIFICATION

The undersigned, John A. Rogness III, being duly sworn, deposes and says he is the Director Regulatory Services 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/her information, knowledge and belief.

John A. Rogness III

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 John A. Rogness III, this the 16th day of September 2014.

Judy K Rasquist 481393
Notary Public

My Commission Expires: January 24, 2017

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 26 of the Commission's August 13, 2014 Request or Information ("August 13, 2014 Request").

a. Kentucky Power makes reference to 807 KAR 5:056 Section 1(3), KRS 278.160, and the Commission's Order dated February 7, 2005, in Case No. 2004-00430.[1] Provide the specific text of the regulation and statute and the specific page number and text of the Order to which Kentucky Power is referring in this response.

b. Refer to the February 7, 2005 Order issued in Case No. 2004-00430 referenced in Kentucky Power's response. The top of page 4 states that the 807 KAR 5:056, Section 1(3) "also permits the recovery of 'actual identifiable fossil and nuclear fuel costs associated with energy purchased' in non-economy transactions." This statement is footnoted and refers the reader to the May 2, 2002 Orders issued in both Case No. 2000-00495-B[2] and Case No. 2000-00496-B[3] "for a discussion of the methodology for calculating the fuel cost of such transactions." On page 5 of the May 2, 2002 Order in Case No. 2000-00495-B, the Commission states:

   We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy

[1] Case No. 2004-00430, East Kentucky Power Cooperative's Request for a Declaratory Ruling on the Application of Administrative Regulation 807 KAR 5:056 to its Proposed Treatment of Non-Economy Energy Purchases (Ky. PSC Feb. 7, 2005).

[2] Case No. 2000-00495-B, An Examination by the Public Service Commission of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001 (Ky. PSC May 2, 2002).

[3] Case No. 2000-00496-B, An Examination by the Public Service Commission of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001 (Ky. PSC May 2, 2002).

energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.

The Order, also on page 5, goes on to state that "[w]e place AEP on notice that this interpretation shall be applied to all energy purchases made after April 30, 2002." Because Kentucky Power (d/b/a American Electric Power at that time) was unique in that it did not own a combustion turbine, it sought and was granted rehearing in that proceeding. By Order dated October 3, 2002, Kentucky Power was granted authority to use the "Peaking Unit Equivalent" approach to calculate the level on non-economy purchase power costs to recover through the fuel adjustment clause ("FAC"). The Peaking Unit Equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

(1) Given the language in the May 2, 2002 and October 3, 2002 Orders issued in Case No. 2000-00495-B, explain why Kentucky Power believes it is appropriate to include the entire cost of non-economy purchases in the calculation of the FAC.

(2) For each month of the period under review, provide the dollar amount of power purchases that were made because of a planned outage that were included in the calculation of the FAC and the dollar amount of power purchases that would have been included had Kentucky Power applied the "Peaking Unit Equivalent" approach approved in the October 3, 2002 Order in Case No. 2000-00495-B.

RESPONSE

a. In its August 27, 2014 response to the Staff's August 13, 2014 Request, Kentucky Power referenced the following portions of the statute, regulations and Order:

KRS 278.160(2):

No utility shall demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation that is greater or less than that prescribed in such schedules.

807 KAR 5:056(3):

Fuel costs (F) shall be the most recent actual monthly cost of:

...

(b) The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in subsection (c) of this subsection, but excluding the cost of fuel related to purchases to substitute for forced outages.

(c) The net energy cost of energy purchases, exclusive of capacity and demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis. Included therein may be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by the buyer to substitute for its own higher cost energy;

February 7, 2005 Order in Case No. 2004-0043[4]

Page 1:

At issue is whether the proposed method, East Kentucky Power Cooperative's proposed method was to report [5] which requires EKPC to underreport its cost of fuel, conflicts with Administrative Regulation 807 KAR 5:056. Finding that Administrative Regulation requires an electric utility to report its actual cost of fuel, we find that the proposal conflicts with that regulation.

Page 4:

It [807 KAR 5:056, Section 1(3)] also permits the recovery of "actual identifiable fossil and nuclear fuel costs associated with energy purchased" in non-economy transactions.[3]

The EKPC proposal conflicts with the literal language of Administrative Regulation 807 KAR 5:056, which states:

Fuel costs (F) **shall be** the most recent **actual** monthly cost of:

[4] *In the Matter of: East Kentucky Power Cooperative's Request For A Declaratory Ruling On The Application Of Administrative Regulation To Its Proposed Treatment Of Non-Energy Purchases.*

[5] East Kentucky Power Cooperative's proposed method was to report "the cost of any non-economy energy purchases made at times when all available EKPC generating capacity is serving native load as $0.00." Order, *In the Matter of: East Kentucky Power Cooperative's Request For A Declaratory Ruling On The Application Of Administrative Regulation To Its Proposed Treatment Of Non-Energy Purchases*, Case No. 2004-00430 at 2 (Ky. P.S.C. February 7, 2005).

...

(b) **The actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in paragraph (c) of this subsection, but excluding the cost of fuel related to purchases to substitute for forced outages**; plus

... (emphasis in original).

Page 5

The regulation prescribes a strict procedure for accounting and reporting fuel costs and requires the reporting of all fuel costs. It does not allow any discretion to a utility to ignore or underreport such costs that are otherwise considered a "fuel cost" or to use other than actual costs.

KRS 278.160(2), furthermore, requires EKPC to charge an FAC charge that reflects the total cost of non-economy energy purchases. It provides:

No utility shall demand, collect, or receive from any person a greater or **less compensation** for any service rendered or to be rendered than that prescribed in its filed schedules, and no person shall receive any service from any utility for a compensation that is greater or less than that prescribed in such schedules.

EKPC's filed rate schedules set forth a formula for calculating its FAC charge that contains the same mandatory language that is contained in Administrative Regulation 807 KAR 5:056. As EKPC's proposal requires EKPC to ignore the formula and to assess an FAC charge other than that set forth in its filed rate schedules, it is contrary to KRS 278.160(2). (emphasis in original)

b. (1) The Company acknowledges footnote 3 of the Commission's Order. Nevertheless, the Commission's repeated reference at pages 4 and 5 of its subsequent February 7, 2005 Order in Case No. 2004-00430 to East Kentucky Power Cooperative's actual costs, combined with the Commission's denial of East Kentucky Power's request to use a cost other than its actual cost, clearly indicates the Commission interpreted its regulation to require that actual fuel costs of non-economic purchases, and not a proxy, be used in accounting and reporting fuel costs.

Subsequent to its February 7, 2005 Order in Case No. 2004-00430, Salt River Electric Cooperative Corporation sought intervention in the proceeding and rehearing of the Commission's February 7, 2005 Order. In denying rehearing, the Commission rejected Salt River's contention East Kentucky Power's purchases did not meet the definition of non-economy purchases in Case No. 2000-00496-B[6] which was identical to the definition in Case No. 2000-00495-B.) Order,. In doing so, the Commission explained:

The definition of "non-economy energy purchases" set forth in our Order in Case No. 2000-00496-B too narrowly construes 807 KAR 5:056 and conflicts with the regulation. A more accurate definition of non-economy energy purchases recognizes that the energy costs thereof may be greater or less than the variable cost of the highest cost generating unit available to serve native load. To the extent the definition in our Order in Case No. 2000-00496-B conflicts with our Order of February 7, 2005, we find that it was incorrect and should be overruled. *Id.* at 6.

The Commission's recognition in its March 21, 2005 Order in Case No. 2000-00430 that the cost of non-economy energy purchases "may be greater or less than the variable cost of the highest cost generating unit available to serve native load," coupled with its emphasis on the accounting and reporting of actual costs in its February 7, 2005 Order in the same proceeding, indicates that the entire, actual costs of the non-economy energy purchase should be used in lieu of any lesser or greater amount.

b. (2) To be filed September 16, 2014.

Supplemental Response filed September 16, 2014

1b(2) Response

Please see the Internal Purchases Tab in KPSC _Staff_2_1_ Attachment 1. The analysis provides the results of applying the Peaking Unit Equivalent test, as approved in the Commission's October 3, 2002 Order in Case No. 2000-00495-B, to the fuel costs for each month of the review period. Those results indicate that only for the months of January, February and March of 2014 is the Company's purchased power cost / MWh greater than the cost calculated using the Peaking Unit Equivalent test. The analysis indicates that the Company's purchased power costs were lower in the months of November and December 2013 and April 2014. Therefore, the Peaking Unit Equivalent approach was only applied on an hourly basis to purchases in the months January, February and March of 2014.

[6] 3 *In the Matter of: East Kentucky Power Cooperative's Request For A Declaratory Ruling On The Application Of Administrative Regulation To Its Proposed Treatment Of Non-Energy Purchases*, Case No. 2004-00430 at 5-6 (Ky. P.S.C. March 21, 2005)

The Summary Tab in the attached spreadsheet provides the analysis comparing purchases made during an outage. The "Purchases During Outages Allocated to Internal Load" column provides for each month of the review period the dollar amount of power purchases that were made because of a planned outage included in the FAC. The "Purchases During Outages Using Peak

Unit Equivalent" column provides the monthly dollar amount that would have been included had the Company applied the Peaking Unit Equivalent approach.

The 2014 Tab provides the underlying data and calculations supporting the analyses contained in the Internal Purchases Tab and Summary Tab.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 27 of the August 13, 2014 Request which states that "Kentucky Power includes 100% of the purchased power costs that it may incur during a time of an energy shortage that is not directly linked to a forced outage in the FAC."

a. Refer to the Commission's language quoted in Item 1.b. above and the May 2, 2002 Order issued in Case No. 2000-00496-B involving East Kentucky Power Cooperative, Inc. On page 5 of that Order, the Commission states:

In reaching our interpretation, we are mindful of EKPC's concerns regarding power purchases made under emergency circumstances. We recognize that in such circumstances wholesale power market prices may significantly exceed the fuel cost of EKPC's highest cost generating unit available to serve native load. In those circumstances, EKPC may apply to the Commission for immediate rate recovery of those costs.

(1) Given the language from the two Commission orders, explain why Kentucky Power believes it is appropriate to include the entire cost of non-economy purchases in the calculation of the FAC.

(2) For each month of the period under review, provide the dollar amount of power purchases that were made to meet demand (when Kentucky Power was not experiencing an outage) that were included in the calculation of the FAC and the dollar amount of power purchases that would have been included had Kentucky Power applied the "Peaking Unit Equivalent" approach approved in the October 3, 2002 Order in Case No. 2000-00495-B.

RESPONSE

a. 1) In addition to the reasons set forth in its response to KPSC 2-1(b)(1), Kentucky Power relies on the Commission's February 7, 2005 and March 21, 2005 Orders in Case No. 2004-00430. In the February 7, 2005 Order, the Commission denied East Kentucky Power Cooperative's request to absorb costs associated with purchases made to meet native load in excess of native generation requiring instead that East Kentucky Power to charge a FAC charge that reflects the total costs of the non-economy purchases. The Commission upheld this conclusion in the March 21, 2005 Order denying Salt River Electric Cooperative Corporation's motion for rehearing. Because the non-economy purchases for energy shortages described in the Company's response to Staff 1-27 are the same type of non-economy purchases that the Commission required East Kentucky Power to recover the total costs of via the FAC in Case No. 2004-00430, the Company similarly seeks to recover the total costs associated with these non-economy purchases via the FAC. The Commission's Order dated in Case No. 2004-00430 overturned the Commission's previous Order in Case No. 2000-00496B:

2) To be filed September 16, 2014.

Supplemental Response filed September 16, 2014

2a(2) Response

Please see the attachment provided in the response to Staff Item 1b(2).The Internal Purchases Tab provides the analysis results of applying the Peaking Unit Equivalent test, as approved in the Commission's October 3, 2002 Order in Case No. 2000-00495-B, to the fuel costs for each month of the review period. The results indicate that only for the months of January, February and March of 2014 is the Company's purchased power cost / MWh greater than the cost calculated using the Peaking Unit Equivalent test. The analysis indicates that the Company's purchased power costs were lower in the months of November and December 2013 and April 2014. Therefore, the Peaking Unit Equivalent approach was only applied on an hourly basis to the months January, February and March of 2014.

The Summary Tab provides the analysis comparing purchases made when the Company was not experiencing an outage. The "Purchases Outside of Outages Allocated to Internal Load" column provides for each month of the review period the dollar amount of power purchases that were made when the Company was not experiencing an outage that were included in the FAC. The "Purchases Outside of Outages Using Peak Unit Equivalent" column provides the dollar amounts that would have been included had the Company applied the Peaking Unit Equivalent approach.

The 2014 Tab provides the underlying data and calculations supporting the analyses contained in the Internal Purchases Tab and Summary Tab.

WITNESS: John A Rogness