

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION ON THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO. 2014-00322
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING JUNE 30, 2014)

**KENTUCKY POWER COMPANY RESPONSES TO
COMMISSION STAFF'S FIRST SET OF DATA REQUESTS**

October 17, 2014

Kentucky Power Company

REQUEST

Provide a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing periods under review. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing periods 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 six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

RESPONSE

Please see Attachment 1 to this response for a summary schedule showing the calculation of E(m). In accordance with the July 2, 2013 Stipulation and Settlement Agreement approved by the Commission, Kentucky Power is not proposing any additional over- or under-recovery for the six-month period.

WITNESS: Amy J. Elliott

Kentucky Power Company

REQUEST

The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by 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/were the source of the gain or loss.

RESPONSE

Please see Attachment 1 to this response.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Provide the following information as of April 30, 2014. In addition to the electronic filing, provide the information in Excel spreadsheet 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. The weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in determining the information.

RESPONSE

a-d. Please see KPSC_1_3_Attachment1.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 16, Monthly Environmental AEP Pool Capacity Costs from ES Form 3.14, Page 1 of 11, Column 5, Line 10. For the November 2013 and December 2013 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

RESPONSE

Not applicable.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

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 for the November 2013 and December 2013 expense months, and Line 16 for the January 2014 to April 2014 expense months. For the November 2013 through April 2014 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

RESPONSE

There was a fluctuation of more than plus or minus ten percent in the expense levels for each month during the review period. Urea expenses form the majority of the Monthly 2003 Plan Non-Fuel Expenses, from ES Form 3.13. Urea expenses fluctuate depending upon the generation from the plant in a given month, which in turn is affected by outages. A schedule of outages is provided as KPSC_1_5_Attachment1 for reference.

More particularly:

- (1) November 2013-- O&M expenses were low due to a forced outage at BS2 and a planned outage at BS1.
- (2) The December Non-Fuel O & M expenses increased from the November amount reflecting the plants greater operation in December. With both units returning to operation in December, December urea expenses returned to a higher level. Also, SCR O&M expenses for the month totaled over \$173,000 for the month. This reflects primarily the \$126,017.50 in expenses incurred in connection with the rebuilding of the SCR south booster fan hub. The hub is to be installed during a future planned outage.
- (3) January 2014--Urea expenses were higher due to the unusually cold weather.
- (4) February & March 2014--Outages during these months reduced the urea expense level.
- (5) April 2014--BS2 did not experience outages, leading to an increase in urea expense.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO2 Emission Allowance Consumption for the November 2013 and December 2013 expense months, and Line 17 for the January 2014 to April 2014 expense months. For the November 2013 through April 2014 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

RESPONSE

Please see KPSC_1_6_Attachment1.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

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

- a. For each month in the six-month review period, provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10.
- b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 7.a.

RESPONSE

a-b. Please see KPSC_1_7_Attachment1.

The Company does not account for allowances separately by plant. This allows Kentucky Power to optimize its use of the allowances. As a result, after determining the average weighted cost per allowance, an additional calculation was made to allocate the allowance consumption among the plants beginning in January with the addition of the Mitchell allowances to the Company's available allowances.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Provide the 12-month average residential customer's monthly usage as of April 30, 2014. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's bill for the requested recovery period. Provide all calculations in electronic spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

RESPONSE

The average residential customer's usage as of April 30, 2014 was 1,418 kWh. Consistent with the terms of the July 2, 2013 Stipulation and Settlement Agreement, Kentucky Power is not proposing to collect any over-or under-recovery.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

In previous environmental surcharge reviews, Kentucky Power agreed to include in its monthly environmental surcharge report costs associated with the Mitchell plant for illustrative purposes until an amended compliance plan for the Mitchell plant is filed and approved by the Commission. Provide the status of Kentucky Power's intent with regard to inclusion of Mitchell costs in the monthly environmental surcharge reports and filing of an amended compliance plan.

RESPONSE

Please see Attachment 1 to this response for the estimated Mitchell environmental expenses for the period from January 1, 2014 through September 30, 2014. The estimates are preliminary and subject to the Commission's action on the Company's to-be-filed application for an amended environmental compliance plan. Kentucky Power intends to submit an application for approval of its amended environmental compliance plan, which will include the relevant Mitchell-related projects, by the end of 2014.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

If the response to Item 1 proposes additional adjustments to environmental costs for the review period, explain whether the adjustments impact the environmental costs assigned to non-associated utilities under the System Sales Clause. Provide a detailed analysis of any necessary adjustments to the environmental costs assigned to non-associated utilities resulting from the adjustments proposed in Item 1.

RESPONSE

The Company is not proposing any adjustments to the non-associated utilities environmental costs.

WITNESS: Amy J Elliott