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 SECOND SET OF DATA REQUESTS

November 25, 2014

VERIFICATION

The undersigned, Amy J. Elliott, being duly sworn, deposes and says she is a Regulatory Consultant I in 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

Amy J. Elliott

Amy J. Elliott

COMMONWEALTH OF KENTUCKY)
) Case No. 2014-00322
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Amy J. Elliott, this 25th day of November 2014.

Judy K Rosquist 481393

Notary Public

My Commission Expires: January 23, 2019

Kentucky Power Company

REQUEST

Refer to the response to Commission Staff's First Request for Information ("Staff's First Request"), Item No. 6, Attachment 1.

a. Refer to footnote (*). Explain why the allowance expenses as allocated for Big Sandy and Rockport do not tie to the general ledger.

b. Refer to footnote (**). Provide the correct number of allowances that should have been reported on Form 3.11.

RESPONSE

a. The total allowances allocated to Big Sandy, Rockport ***and Mitchell*** tie to the general ledger for inventory and consumption. The consumption and inventory amounts reported on Form 3.11 beginning January 2014 reflect only Big Sandy and Rockport inventory and consumption and thus only represent a portion of the total amounts shown for those months on the general ledger. *See also* the Company's response to KPSC 2-2(c).

b. The number of allowances that should have been reported on Form 3.11 is 9,421 for Big Sandy and Rockport for the month of April 2014.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's First Request, Item No. 7, Attachment 1.

a. For January 2014, explain the note on row number 467 regarding the addition of the 2014 vintage allowances to current inventory.

b. Provide the number of allowances and total cost of the 2014 vintage allowances added to current inventory.

c. Refer to January 2014 on Attachment 1, which shows consumption of 8,856 allowances at a total cost of $836,550. Form 3.11 and Kentucky Power's response to Staff's First Request, Item 6 for January 2014 show a consumption of 8,558 allowances at a total cost of $811,206. Explain this discrepancy.

d. Refer to January 2014 on Attachment 1, which shows a prior-year consumption adjustment of 52 allowances at a cost of $7,818. Explain why this adjustment is not reflected on Form 3.11 for January 2014.

e. Refer to January 2014 on Attachment 1, which shows the addition of Mitchell allowances to Kentucky Power's inventory of 68,113 allowances at a total cost of $2,938,027. Explain why this adjustment is not reflected on Form 3.11 for January 2014.

f. Refer to February 2014 on Attachment 1, which shows a prior-year consumption adjustment of 6 allowances at a cost of $902. Explain why this adjustment is not reflected on Form 3.11 for February 2014.

g. Refer to February 2014 on Attachment 1, which shows consumption of 9,194 allowances at a total cost of $868,463. Form 3.11 and Kentucky Power's response to Staff's First Request, Item 6 for February 2014 show a consumption of 8,945 allowances at a total cost of $811,206. Explain this discrepancy.

h. Refer to March 2014 on Attachment 1, which shows consumption of 7,244 allowances at a total cost of $684,266. Form 3.11 and Kentucky Power's response to Staff's First Request, Item 6, for March 2014 show a consumption of 6,829 allowances at a total cost of $645,103. Explain this discrepancy.

i. Refer to April 2014 on Attachment 1, which shows consumption of 9,950 allowances at a total cost of $939,874. Kentucky Power's response to Staff's First Request, Item 6, for April 2014 shows a consumption of 9,421 allowances at a total cost of $889,949. Explain this discrepancy.

RESPONSE

a. The note recognized that effective January 2014 the 2014 vintage allowances are available to be used and were added to the Company's inventory.

b. 46,563 2014 vintage allowances were added in January 2014, at a total cost of $2,361,233.

c. The January 2014 consumption of 8,558 allowances at a total cost of $811,206 and reported on Form 3.11 reflects only the consumption at Rockport and Big Sandy. The difference represents the Company's share of allowances consumed at Mitchell.

d. The prior year adjustment was included in the total number and dollar amount of allowances consumed for the month of January.

e. This adjustment was not included because Form 3.11 only reflects the Big Sandy and Rockport allowance inventory. These allowances were assumed to be the Mitchell beginning inventory and included in the Mitchell environmental expense calculation.

f. The amount of allowances and associated dollar values shown on the line entitled "Consumption Adj. Prior Year" shown on the Company's response to KSPC 1-7, Attachment 1 is included in the total consumption for the month that has been allocated between Big Sandy, Rockport, and Mitchell.

g-i. For each of the months in question, the amounts reported on Form 3.11 are only for Big Sandy and Rockport. The difference represents the Company's share of allowances consumed at Mitchell.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staff's First Request, Item 6 and Item 7, Attachment 1. Explain why the average unit cost of allowances consumed in January and February 2014 do not agree.

RESPONSE

The average unit cost of allowances on the two attachments do not agree because the total allocation of allowance expenses for Rockport and Big Sandy for the months of January and February on Attachment 1 of KPSC 1-6 includes previous period consumption adjustments. The average unit cost reflected in Attachment 1 to KPSC 1-7 does not include those consumption adjustments.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staff's First Request, Item 7, Attachment 1.

Explain why the ending monthly inventory balances for allowances and cost do not agree with the ending monthly inventory balances for allowances and cost as shown on Form 3.11 of the monthly environmental surcharge report.

RESPONSE

Item 7, Attachment 1 reflects the entire balance of allowances for Kentucky Power. The balances on Form 3.11 exclude the allowances that the Company received as part of the Mitchell asset transfer.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staff's First Request, Item 9.

a. The schedule titled Accumulated Environmental Cost, Accumulated Depreciation and Net Book Value At December 31, 2013 ("Total Mitchell Environmental') shows total environmental investment original cost of $1,092,238,299. Form 3.14, page 7 of 11 of Kentucky Power's monthly environmental report for December 2013 shows utility plant at original cost of $1,154,516,680. Explain this discrepancy.

b. The Total Mitchell Environmental schedule shows investment in equipment for water pollution of $13,902,674. Is it Kentucky Power's intent to recover costs associated with Mitchell's water-pollution-control equipment through the environmental surcharge?

c. Explain how including costs related to water-pollution equipment for the Mitchell plant in the environmental surcharge is in accordance with the provisions of KRS 278.183.

RESPONSE

a. The Company erred in reporting its environmental investment as $1,092,238,299. The Company should have began with the original cost of $1,154,516,680 as was reflected on Kentucky Power's monthly environmental report for December 2013 and updated for any additions or retirements in 2013. The corrected balance is $580,419,083 for KPCo's 50% undivided interest in the Mitchell Plant total environmental investment of $1,160,838,186. Please see Attachment 1 to this response for a revised response to KPSC 1-9 based on these corrected values.

(b)-(c) The Company agrees that costs recoverable through the environmental surcharge are limited to those "costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which relate to coal combustion wastes and by-products for facilities utilized for the production of energy from coal in accordance" with Kentucky Power Company's approved environmental compliance plan. The term "water pollution" on Attachment 1 to the Company's response to KPSC 1-9 is a misnomer. Although certain costs may be classified under the term "water pollution" in the Company's accounting system, the Company only includes for recovery through its environmental surcharge those costs (whether denominated water pollution or otherwise in the Company's accounting system) that arise in connection with facilities or equipment used by Kentucky Power to comply with the federal Clean Air Act, as well as those federal, state and local environmental requirements relating to coal combustion wastes and by-products. For example, the costs include the Mitchell Units 1 and 2 FGD purge stream water treatment systems, which are part of the Company's existing Commission-approved environmental compliance plan. *See*, Order, *In the Matter of: The 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*, Case No. 2006-00307 (Ky. P.S.C. January 24, 2007).

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to the response to Staff's First Request, Item 9, Attachment 1.

Refer to the FGD cash working capital calculation. Confirm that incorrect formulas were used to calculate the cash working capital amount for the last three months and the annualized total. If confirmed, provide a corrected schedule.

RESPONSE

The Company confirms that incorrect formulas were used to calculate the cash working capital amount for the last three months and the annualized total.

Please see revised schedule included as Attachment 1 to KPSC 2-5.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to Form 3.11 for the months of December 2013 through April 2014, which shows Intercompany Sales of 930 allowances for $139,825.

a. Confirm the amounts shown are correct for each month.

b. If the amounts as reported are correct, explain why the cumulative balance columns were not updated each month.

RESPONSE

a. The December 2013 reported values of 930 allowances sold for $139,825 is correct. The remaining months should have been zero allowances sold for $0.

b. N/A

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to Form 3.11 for the months of December 2013 and January 2014, which shows Intercompany Purchases of 29,126 allowances for $9,047,277.

a. Confirm the amounts shown are correct for each month.

b. If the amounts as reported are correct, explain why the cumulative balance columns were not updated each month.

RESPONSE

a. The December 2013 reported values of 29,126 allowances purchased for $9,047,277 is correct. The remaining months should have been zero allowances purchased for $0.

b. N/A

WITNESS: Amy J Elliott