



## **Kentucky Power Company**

### **REQUEST**

Using the methodology employed to calculate the \$16.75 million value shown on the Company's response to KPSC 5-10 in Case No. 2012-00578, please perform the same calculation for the period beginning January 1, 2014 through the most recent period for which data is available.

### **RESPONSE**

The \$16.75 million annual value used in the Company's response to KPSC 5-10 in Case No. 2012-00578 was computed by first calculating the difference between the 2012 cost of the coal blend burned at the Mitchell generating station (\$27.13 MWh) and the 2102 cost of coal burned at the Big Sandy generating station (\$31.59 MWh) to produce approximate savings per MWh of Mitchell output of \$4.5/MWh. This estimated \$4.50/MWh difference was then multiplied by Kentucky Power's proposed 50% share of Mitchell's 2012 output (using 2012 FERC Form 1) to calculate total savings of \$16,823,874. These total savings were then allocated across Kentucky Power's 2012 retail sales (from FERC Form 1) to calculate the rate impact to Kentucky Power's customers of approximately \$2.50 per MWh referred to in paragraph 2 of the July 2, 2013 Stipulation and Settlement Agreement. This \$2.50/MWh rate was then multiplied by the Company 2012 jurisdictional sales of approximately 6.7 GWh to calculate the \$16.75 million estimated annual savings.

Using the same methodology for calendar year 2014, the Kentucky Power customer savings resulting from the difference between the cost of the Mitchell coal blend and Big Sandy coal is \$2.29/MWh, or approximately 92% of the \$2.50/MWh savings used to compute the \$16.75 million annual savings shown in the Company's response to KPSC 5-10. Multiplying the \$2.29/MWh savings by Kentucky Power's 2014 jurisdictional sales of 6,455,230 MWh yields a total 2014 Kentucky Power customer benefit of \$14.7 million as a result of the difference in the coal prices. Please note that although a portion of the small difference between the 2014 total results and the estimate shown in the Company's response to KPSC 5-10 using 2012 data (\$14.7 million vs. \$16.75 million), stems from the fact that the 2014 difference in the prices of coal for the two generating stations was slightly less than the 2012 difference, another part of the difference results from the lower 2014 jurisdictional sales.

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For the first three months of 2015, Big Sandy coal costs have been slightly lower (-0.49/MWh) than the cost of the Mitchell coal blend. Unlike Mitchell, where a substantial portion of the fuel blend is supplied pursuant to long-term contracts, thereby protecting the customers from swings in the spot market, Big Sandy is relying upon increasing amounts of spot market coal as the station prepares to stop burning coal in 2015. This level of spot market purchases is not typical of utility practices for units that are expected to continue to operate.

Using the same methodology used to compute the \$16.75 million in estimated annual savings shown in the Company's response to KPSC 5-10, the difference in the price of the coal blend burned at Mitchell and the coal burned at Big Sandy yielded a "negative benefit" of \$445,586 for the first three months of 2015.

Please see KPSC\_PHDR\_10\_Attachment1.xls for the supporting calculations used to compute this response.

**June 3, 2015 Revised and Supplemental Response:**

Because of an inadvertent transposition of the formulas employed in the spreadsheet, the 2014 12-month total and 2015 three month total values for the columns labeled "Big Sandy Generation Coal Costs in Dollars per MWh" and "Mitchell Generation Coal Costs in Dollars per MWh" were reversed. The Big Sandy values should have been \$29.51 and \$26.76 for the 12 months of 2014 and three months of 2015 respectively. The Mitchell values should have been \$26.05 and \$27.25 for the 2014 and 2015 periods. All other values, both monthly and total, were correct.

Please see Revised KPSC\_PHDR\_10\_Attachment1.xls for the supporting calculations used to compute this response.

During March 2015, a cost reporting error resulted in the Mitchell coal costs being overstated by \$743,507. This amount was reversed in April 2015 and will be credited back in June 2015 for the April 2015 expense month. But for the reporting error, the March 2015 coal costs would have been \$3,365,416, resulting in March 2015 Mitchell generation coal costs of \$25.28/MWh and first quarter 2015 Mitchell generation coal costs of \$26.43/MWh. These costs would have been \$0.67/MWh and \$0.33/MWh less than the Big Sandy generation coal costs for the corresponding one-month and three-month periods of 2015.

**WITNESS:** Ranie K Wohnhas