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. 2014-00450**
NOVEMBER 1, 2012 THROUGH OCTOBER 31, 2014	**)**	

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

March 25, 2015

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. 2014-00450
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 30th day of March, 2015.

Ann Dawn Clark

Notary Public

NOTARY PUBLIC STATE OF OHIO

Ann Dawn Clark
Notary Public-State of Ohio
My Commission Expires
November 16, 2015

My Commission Expires: November 16, 2015

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. 2014-00450
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 24th day of March, 2015.

Belinda Stacy
Notary Public #517001

My Commission Expires: 8-11-18

Kentucky Power Company

REQUEST

Refer to page 5 of the Direct Testimony of Kelly D. Pearce ("Pearce Testimony"), lines 6-8, which state, "Kentucky Power will be purchasing more power from the PJM market as needed to service its load once Big Sandy Unit 2 retires no later than May of this year and is no longer available to supplement the Company's other generations to provide energy as called upon." State whether this statement means that, without Big Sandy Unit 2, Kentucky Power does not have enough capacity to meet its load.

RESPONSE

No. The Company has sufficient capacity to meet its internal load. The statement refers to the fact that following the retirement of Big Sandy Unit 2 the Company will no longer have available the capacity and resulting energy it has during the Overlap Period. Without that capacity and energy, the Company will be forced into the market in the event that customer demand exceeds available generation during periods of exceptionally high demand or when the Company's generation resources are experiencing outages.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 7 of the Pearce Testimony, lines 15 and 16, which state, "There were 400 hours that one hundred percent of either Mitchell Unit 1, Mitchell Unit 2 or both Mitchell units were economically assigned to native load...." State whether the reference to 100 percent of the units means 100 percent of Kentucky Power's 50 percent undivided share of the Mitchell plant. If not, explain.

RESPONSE

Yes, "one hundred percent" in this context means 100% of Kentucky's ownership interest in the Mitchell plant.

WITNESS: Kelly D Pearce

Kentucky Power Company

REQUEST

Refer to the Pearce Testimony, Exhibit KDP-1. Provide the supporting calculations for all amounts on rows 1 and 2 in Excel spreadsheet format.

RESPONSE

See KPSC_2_3_Attachment1.xls through KPSC_2_3_Attachment25.xls for the requested information.

WITNESS: Kelly D Pearce

Kentucky Power Company

REQUEST

Refer to page 5 of the Direct Testimony of John A. Rogness ("Rogness Testimony"). Provide a revised Table 2 that reflects the exclusion of the Mitchell "no load costs."

RESPONSE

Please see 2_4_Attachment1.xls for the response.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 6 of the Rogness Testimony, lines 12-16, which state that the month of October 2014, with a fuel cost of 2.725 cents per kWh, was the month "with the smallest differential, without exceeding the projected fuel costs shown in Table 1."Given that the proposed base fuel rate of 2.725 per kWh exceeds the projected fuel costs shown in Table 1 of 2.615 per kWh for 2015 and 2.658 per kWh for 2016, to what is Mr. Rogness referring when he states that October does not exceed the projected fuel costs?

RESPONSE

The statement should read "During the 2014 period, October 2014 was the month with fuel cost (2.725 cents per kWh) with the smallest differential above the projected fuel costs shown in Table 1."

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to pages 7-8 of the Rogness Testimony. Beginning at the bottom of page 7, Mr. Rogness discusses the inclusion of Mitchell "no load costs" in the historical and projected fuel cost projections.

a. State whether fuel costs for Big Sandy units 1 and 2 and Mitchell units 1 and 2, including "no load costs," are included in the 2015 fuel cost projections from January through May.

b. Confirm that all Big Sandy unit 2 fuel costs were excluded from 2015 projections beginning in June 2015. If this cannot be confirmed, explain.

c. For the 2015 and 2016 projections, state the months that include the following:

(1) Big Sandy unit 1 coal-related fuel costs;
(2) Big Sandy unit 1 natural gas-related fuel costs; and
(3) No Big Sandy unit 1 fuel costs.

RESPONSE

a. Yes. The projected fuel costs for 2015 include no load costs.

b. Big Sandy Unit 2 is projected to be retired May 31, 2015. There are no Big Sandy Unit 2 fuel costs beyond May 2015.

c. (1) Big Sandy Unit 1 coal related fuel costs are present in 2015 projections for the months January - November 2015.

(2) Big Sandy Unit 1 natural gas related fuel costs are present in the 2016 projections for the months May - December 2016.

(3) Big Sandy Unit 1 has no fuel costs for December 2015 -- April 2016.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 9 of the Rogness Testimony.

a. Provide a detailed description of each PJM Interconnection, Inc. ("PJM") billing line item listed.

b. Describe in detail the following PJM billing line items and explain why each is not includable in the calculation of the fuel adjustment clause ("FAC"):

1210, 2210, 1215, 2217, 1218, 2218, 1230, 1245, 2245, 1250, 1260, 2260, 1375, 2370, and 2375.

c. By month for each PJM billing line item listed in subpart b. above, provide the amount charged or credited to Kentucky Power by PJM from November 1, 2012, to the most current month available and, if different, the amount that would have been included in the calculation of the FAC if the items were found to be includable by the Commission.

d. State whether Kentucky Power believes that the PJM billing line items included in the FAC should be the same across all Kentucky jurisdictional utilities that are members of PJM. If not, explain why the Commission should allow differences in those recoverable through the FAC.

RESPONSE

a. Please see KPSC_2_7_Attachment1.xls, Table 1, which provides a detailed description of the PJM BLIs which are eligible for inclusion in the FAC.

b. Please see KPSC_2_7_Attachment1.xls, Table 2, which provides a detailed description of the listed PJM BLIs. Kentucky Power only includes certain PJM BLIs in its FAC calculation. The other items are recovered in base rates

c. Please see KPSC_2_7_Attachment2.xlsx, which provides the Kentucky Power Summary file for period of November 2012 through January 2015 for the requested PJM line items.

d. The Company is not aware of which PJM BLIs are being included in other utilities' FAC filings, or why BLIs other than those included by Kentucky Power might be included by other companies. Without addressing the recoverability of any other utility's PJM BLIs, Kentucky Power believes the Commission's fuel adjustment clause should be applied uniformly to permit the recovery through the fuel adjustment clause of each utility's actual fuel costs, as defined in the regulation, other than those actual fuel costs resulting from improper fuel procurement practices.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Item 3 of the Commission's February 5, 2015 Request for Information ("February 5, 2015 Request"). The response states that both fuel costs and sales are projected to be higher in 2015 and 2016. State what the comparison is being made to and provide the amounts for the comparison. For example, if the comparison is being made to years 2013 and 2014, provide the fuel costs and sales for each of those years.

RESPONSE

Both 2015 and 2016 monthly fuel costs and sales are projected to be higher than October 2014 fuel costs and sales which are provided in attachments in Items 2 and 3 of the Commission's February 5, 2015 Request. See attachment Staff_2_8_Attachment1_Confidential.xlsx for monthly projected fuel costs and sales.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the response to Item 4 of the February 5, 2015 Request. Confirm that changing Kentucky Power's current fuel base rate of $.02840 per kWh to a base fuel rate of $.02725 per kWh results in a $.00115 reduction to Kentucky Power's base energy rates.

RESPONSE

Confirmed.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the response to Item 5 of the February 5, 2015 Request, Attachment 1. Explain why the sum of the fuel costs (by totaling the amounts from both the Big Sandy and Mitchell tabs) in the attachment do not reconcile with the fuel cost totals that appear for the years 2015 and 2016 in Table 1 of the Rogness Testimony.

RESPONSE

Table 1 of the Rogness testimony reflects the fuel costs for internal load only. KPSC_1_5_Attachment1 includes fuel costs for internal load and off system sales.

For a breakout of these costs, please see KPSC_2_8_Attachment1_Confidential.xlsx cells 28N (for the year 2015) and 26N (for the year 2016) respectively.

Please see also KPSC_2_10_Attachment1.xls for revised tables 1 and 3 found in Rogness testimony pages 4 and 7. The revision corrects a typographical error for the projected fuel cost for 2016. In the revised tables, the projected fuel costs correspond to net projected fuel costs for 2015 and 2016 which can be found in cells 28N and 26N respectively in KPSC_2_8_Attachment1_Confidential.xlsx

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the response to Item 6 of the February 5, 2015 Request, Attachment 1. Explain why the sum of the GWh in the attachment does not reconcile with the kWh totals (after conversion to GWh) that appear for the years 2015 and 2016 in Table 1 of the Rogness Testimony.

RESPONSE

Table 1 of the Rogness testimony includes line losses (other than PJM marginal line losses) and wholesale energy needs as part of the Company's energy requirement. However, KPSC_1_6_Attachment1excludes losses and includes only retail energy sales.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the response to Item 38 of the February 5, 2015 Request.

a. The response states that the PJM billing line items are "allocated between off system sales obligation and Kentucky Power's internal load requirements."

(1) Explain in detail how the PJM billing line items are allocated between off-system sales and internal load requirements.

(2) By month, for the period January 1, 2014 through October 31, 2014, provide the allocations of the PJM billing line items between off-system sales and internal load requirements.

b. For the months of January 2014 and August 2014, provide a copy of the PJM invoice/statement which supports the amounts recorded in the FAC for those expense months. If necessary, provide a reconciliation of the amounts in the invoice/statement to the amounts recorded in the FAC.

c. Refer to Attachment 1, tab "Sheet 1." For each column, columns D through L, explain what is represented and how the amount in the column was calculated.

d. Refer to Attachment 2. Account 4470207 is identified as a charge and account 4470208 is identified as a credit. Explain why the opposite is shown for those accounts for period 9 of 2013 and period 5 of 2014 in the table.

RESPONSE

a. Amounts included in the FAC for PJM BLI 1200 and 1205 represent PJM spot market energy purchase amounts. The allocation of these amounts between off system sales obligations and Kentucky Power's internal load requirements is determined hourly based on the economic dispatch process in PowerTracker using the spot market energy purchase cost ($/MWh) compared to the to the cost ($/MWh) of other resources.

Amounts included in the FAC for PJM BLI 1220, 1225, 1420, 2220 and 2420 represent PJM marginal line losses and credits. The allocation of these amounts between off system sales obligations and internal load requirements is determined hourly based on the applicable purchase or load ratio associated with the respective internal and off system activity as a percentage of the total activity.

a. (2) See attachment KPSC_2_12_Attachment1.xlsx, for the allocation between off-system sales (OSS) and internal load (LSE) requirements.

b. See attachment KPSC_2_12_Attachment2.pdf, for the January 2014 PJM invoice. See attachment KPSC_2_12_Attachment3.pdf, for the August 2014 PJM invoice. The reconciliation of the amounts in the invoice to the amounts recorded in the FAC are in KPSC_2_12_Attachment4.xls

c. Explanation of Purchase Power Allocation as shown on KPSC_1_38_Attachment1, tab "Sheet 1":
Column D: Total Purchase MWh
Column E: Total Purchase Energy Cost
Column F: Total Purchase Fuel Cost
Column G: Purchase MWh allocated to Off-System Sales by PowerTracker reconstruction process
Column H: Purchase Energy Cost allocated to Off-System Sales by PowerTracker reconstruction process
Column I: Purchase Fuel Cost allocated to Off-System Sales by PowerTracker reconstruction process
Column J: Purchase MWh allocated to Firm (Internal) Load = Column D – Column G
Column K: Purchase Energy Cost allocated to Firm (Internal) Load = Column E – Column H
Column L: Purchase Fuel Cost allocated to Firm (Internal) Load = Column F – Column I

d. Journal entries to reclassify certain PJM ancillary service costs were made during the months of September 2013 and May 2014. The September 2013 journal entries were included in Case No. 2013-00261 and described at the October 7, 2013 Informal Conference. The Informal Conference Memorandum is attached as KPSC_2_12_Attachment5.pdf.

The reason for the May 2014 reclassification is that Kentucky Power conducted an internal review of its PJM allocations after the termination of the AEP East System Pool and the acquisition of 50% of the Mitchell Plant. Some IT interface allocations were not properly allocating marginal losses between LSE and OSS. The actual amounts from PJM were correct but the allocations were not. These corrections were reviewed and the interfaces were corrected beginning with the April 2014 actual cycle. Manual journal entries were made for the January through March 2014 time period. The issue did not impact 2013 or prior because it related only to the actual set-up of the Mitchell plant in the allocation system. The one-time correction was made in May.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the response to Item 39 of the February 5, 2015 Request. State whether Kentucky Power is compensated by PJM if PJM dispatches any of its units out of economic dispatch order. If so, explain whether this compensation is fuel-related and credited to customers through the FAC. If fuel-related compensation is received and not credited through the FAC, explain why it is not credited.

RESPONSE

If PJM needs a unit to run out of economic dispatch order, due to system operational constraints (e.g., voltage support in the area), then PJM instructs the unit to run and provides a "make whole" operating reserve payment to the generator to ensure the unit is compensated at its cost-based offer.

When a unit is dispatched and the energy is credited to an off system sale, then the associated fuel cost would not be passed through the FAC. Only fuel related costs associated with retail load are passed through the FAC.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

State whether there are times when PJM does not dispatch one or more of Kentucky Power's generating units, but, in order to meet load, Kentucky Power has to purchase power at a higher cost from PJM than if it had operated its unit(s). If so, state the number of times this occurred, by month, during the period under review and whether Kentucky Power received compensation from PJM.

RESPONSE

The Company has identified one scenario in which the above could potentially occur:

a. First, a generator would have to not be selected for any dispatch, i.e., Down Not Required (DNR), by PJM in the day-ahead market.

b. Second, if the Company's load in real time then exceeded its day ahead forecast, this incremental load difference would pay real time prices to the extent the Company was overall deficit, i.e. its total load exceeded its total generation.

c. Finally, the incremental costs, if any, would be (a) the lesser of the incremental load (real time less day ahead forecast) or the overall Company energy deficit (load less generation) multiplied by (b) the difference in the real time prices versus the cost of the unit had it not been deselected by PJM.

PJM does not provide any incremental payment if or when the above scenario occurs.

As evidence, the Company identified only one DNR event (not associated with a unit start-up) in 2014 that occurred over approximately the three days of the July 4th holiday weekend, when Big Sandy unit 2 was deselected as DNR by PJM.

Prior to 2014, due to the AEP Pool, the scenario above would have been even less likely due to the overall surplus of the AEP Pool and Kentucky Power's ability to purchase energy at costs from the other pool members for its internal load. This would have precluded Kentucky from having to purchase PJM power for its own load unless it was economic.

WITNESS: Kelly D Pearce

Kentucky Power Company

REQUEST

In its most recent two-year case in which a change in the base fuel rate occurred, Case No. 2008-00518, Kentucky Power indicated its preference that any change in base rates be approved on a "bills rendered" basis rather than a "service rendered" basis. If the current FAC review results in changes to its base rates, state whether Kentucky Power continues to prefer the same "bills rendered" basis as authorized in the two-year case.

RESPONSE

Yes. Kentucky Power prefers that any change in base rates be approved on a "bills rendered" basis rather than a "service rendered" basis.

WITNESS: John A Rogness