

Kentucky Power Company

REQUEST

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

RESPONSE

Please see KPCO_R_PSC_1_1_Attachment1.xls.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales is reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For the last six expense months of 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 the source of the gain or loss.

RESPONSE

The Company received \$110 in March 2015 from the EPA allowance auction for withheld allowances.

WITNESS: Amy J Elliott

Kentucky Power Company

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In Case No. 1996-00489, the Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be reviewed for reasonableness during the two-year review case. Currently, the rate of return on common equity is 10.25 percent approved in Case No. 2014-00396.

- a. Does Kentucky Power believe that the 10.25 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.
- b. If the response to part a. is "no, " what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis and testimony supporting Kentucky Power's position

RESPONSE

- a. Please refer to the testimony of Company witness Elliott at pages 4 and 5 regarding return on common equity for the environmental surcharge.
- b. Not applicable.

WITNESS: Amy J Elliott

Kentucky Power Company

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Provide the following information as of April 30, 2015. 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 the determination.

RESPONSE

Please refer to [KPCO_R_PSC_1_4_Attachment1.xlsx](#) for the requested information.

The Commission recognized on page 72 of its June 22, 2015 Order that the WACC and GRCF should remain constant until base rates are set following the Company's next base rate case. [KPCO_R_PSC_1_4_Attachment2.xlsx](#) reflects the calculation of the WACC and GRCF as utilized in Case No. 2014-00396.

WITNESS: Amy J Elliott

Kentucky Power Company

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KRS 278.183(3) provides that, during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

- a. Does Kentucky Power believe any additional surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review?
- b. If the response to part a. is "yes ," provide the additional surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Explain how the surcharge amount should be incorporated into the base rates. Include all supporting calculations, work papers, and assumptions as well as any analysis that Kentucky Power believes support its position.

RESPONSE

a & b Incorporation of environmental costs outside of a rate case may differentially affect different classes of customers. Environmental costs include both investment amounts, which typically are reflected in the demand charge, and expenses, which are reflected in the energy charge. By contrast, fuel costs, which periodically are rolled into base rates, include only energy costs. The best time to allocate the expense and investment components of the environmental charges is in the context of a base rate case.

Additionally, the Company's base rates were established for service rendered on and after June 30. Insufficient time has elapsed since then to necessitate the inclusion of any additional environmental costs in base rates.

The decision not to incorporate additional environmental costs should have no effect on the ratepayers as a whole, or the Company, because the total revenue requirement remains the same.

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 2014 through April 2015 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

During the period of November 2014 through April 2015, there was a fluctuation of more than plus or minus ten percent in the expense levels for the months of November 2014, December 2014, January 2015, and March 2015. More particularly:

(1) November 2014 -- O&M expenses decreased by more than 10% as a percentage of October 2014 O&M expenses because of planned outages at BS1 and BS2 during October 2014. Although the variance is only \$7,631 in absolute dollars, the abnormally low October 2014 O & M expenses cause the inter-month variance to exceed 10%.

(2) December 2014 -- The O & M expenses inadvertently included the annual total of \$481,914 in air emissions fees. Although the air emissions fees are properly recoverable through the environmental surcharge mechanism, the Company included 1/12 of the annual total in each of its monthly environmental surcharge reports and should not have included the annual total in December. Because the environmental surcharge factor was set at zero during this month, and thus the \$481,914 in erroneous expenses were not recovered from customers, the Company is not proposing to refund the amount.

The remainder of the variance between November 2014 and December 2014 principally is related to the Big Sandy outages in November 2014. Urea consumption varies directly with operation of the generating facilities. A schedule of outages is being provided as KPCO_R_PSC_1_6_Attachment1.xls. During November 2014, both Big Sandy units experienced scheduled outages. The Big Sandy units returned to more normal operations in December 2014.

(3) January 2015-- O&M expenses decreased more than 10% from the reported December 2014 level. The variance reflects the difference between the inadvertently overstated air emission fees in December 2014 and the more normal fee level in January 2015. If the December 2014 O&M expense amount had included only the correct air emission fee the January 2015 variance in O & M expenses would have been within 10% of December 2014 O & M expenses.

(4) March 2015--Most of the variance in the O & M expenses from February to March 2015 can be explained by the inclusion of expenses related to the converter replacement on the precipitator in the amount of \$26,909.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO₂ Emission Allowances. For the November 2014 through April 2015 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 refer to KPCO_R_PSC_1_7_Attachment1.xls for the requested information. Because SO₂ allowances are consumed based on emitted tons of emissions, please also refer to KPCO_R_PSC_1_6_Attachment1.xls which provides an outage schedule for the period from November 2014 through April 2015.

WITNESS: Amy J Elliott

Kentucky Power Company

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

- a. For each month in the two-year 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 a.

RESPONSE

a-b. Please refer to KPCO_R_PSC_1_8_Attachment1.xls. There are two steps to the calculation. The first step determines the average weighted cost per allowance for the total inventory for the Company. The second step, as demonstrated on the "allocation" tab of Attachment 1, allocates allowance consumption by plant based on emitted tons.

WITNESS: Amy J Elliott

Kentucky Power Company

REQUEST

Provide the actual average residential customer's monthly usage as of April 2015. 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 supporting calculations and documentation.

RESPONSE

The actual average residential customer's monthly usage as of April 2015 was 1,386 kWh. Please see [KPCO_R_PSC_1_9.pdf](#) for the supporting documentation of the average residential usage calculation.

The Company is not proposing to collect or refund any over-or under-recovery of environmental costs during the review period. Thus, customers' bills will not be impacted.

WITNESS: Amy J Elliott