

August 15, 2019

ELECTRONICALLY FILED

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Gwen R. Pinson
Executive Director
Public Service Commission
211 Sower Boulevard
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Frankfort, KY 40602-0615

RE: **Case No. 2017-00179** (Post-Case Correspondence File)

Dear Ms. Pinson:

This letter provides additional explanation concerning Kentucky Power Company's August 15, 2019 Excel workbook updating the Company's Tariff P.P.A. being filed concurrently, and explains the Company's proposal to maintain the current P.P.A. rates for the period October 1, 2019 through September 30, 2020.

The Commission's January 18, 2018 order in Case No. 2017-00179 amended Kentucky Power's Tariff P.P.A. to permit the Company, effective January 19, 2018, to recover and collect through the operation of Tariff P.P.A. 80% of the annual over or under collection of PJM OATT LSE charges, as compared to the annual amount of net PJM OATT charges and credits currently included in base rates (\$74,453,085).

The P.P.A. rates for the period July 1, 2018 through June 30, 2019 resulted in an over-recovery when compared to Kentucky Power's costs during the corresponding period. However, Kentucky Power anticipates that future costs recoverable through the Company's Tariff P.P.A. will require significant P.P.A. rate increases beginning October 2020.

To mitigate anticipated P.P.A. rate increases, and to minimize customer bill impacts and fluctuations, Kentucky Power proposes to maintain the current P.P.A. rates through September 2020, and to offset the anticipated Tariff P.P.A. under-recoveries with the current over-recovery during the next 12 months. The Company's proposal will minimize the expected 2020 Tariff P.P.A. rate increase.

Kentucky Power's non-Rockport net P.P.A. PJM OATT LSE costs for the twelve months ended June 30, 2019 totaled \$67,826,484. The Tariff P.P.A. going level revenue requirement for

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the period beginning October 2019, as calculated on P.P.A. Form 1.0 filed with the Commission today, indicates an over-recovery of \$5,169,778 for the twelve months ended June 30, 2019.

The 2018-2019 Tariff P.P.A. over-recovery was driven by the timing of an atypical \$10,400,189.52 credit. The credit was related to a change in FERC's methodology to allocate the costs of transmission enhancement projects in the PJM footprint, which resulted from FERC's approval of a non-unanimous settlement in Docket Number EL05-121.¹ Without that atypical credit, the Tariff P.P.A. revenue requirement for the current period would have been \$3,195,510.

The 2018-2019 transmission enhancement credit adjustment resulted from the delay between the date of the non-unanimous settlement and FERC's approval of the settlement in Docket Number EL05-121. As such, it is not representative of the amount of the transmission enhancement credit going forward. Coupled with the expected increase in PJM LSE OATT charges in the next rate period and beyond, Kentucky Power projects a Tariff P.P.A. revenue requirement of \$11 million to \$14 million for the 2020-2021 Tariff P.P.A. rate period. By contrast, Kentucky Power estimates that maintaining the current Tariff P.P.A. rate for the twelve months beginning October 2019, and application of the existing over-recovery to reduce the anticipated 2020-2021 Tariff P.P.A. revenue requirement, will limit the 2020-2021 revenue requirement to \$6 million to \$9 million.

A swing in the Tariff P.P.A. revenue requirement from a credit of \$5.170 million in the 2019-2020 rate period to a charge of \$11 million to \$14 million in the 2020-2021 rate period (in practical terms a change of \$16 to \$19 million in a single year) that would result if the current over-recovery is flowed back beginning October 2019, is inconsistent with the ratemaking principles of rate stability and gradualism. To mitigate the expected increase in the Tariff P.P.A. revenue requirement for the 2020-2021 rate period, and to minimize customer bill impacts and fluctuations, Kentucky Power proposes to maintain the current Tariff P.P.A. rate for the 2019-2020 rate period, and to reduce the 2020-2021 Tariff P.P.A. revenue requirement by the amount of the 2018-2019 over-recovery. Maintaining the current Tariff P.P.A. rate is projected to produce \$360,509 in revenues for the upcoming rate period.

An average residential customer using 1,253 kWh of electricity each month currently sees a \$0.10 monthly P.P.A. charge. The Company's proposal to maintain the existing Tariff P.P.A. rates for the twelve months beginning October 2019 is expected to produce the same \$0.10 monthly Tariff P.P.A. charge for the average residential customer using 1,253 kWh of electricity per month.

¹ This non-unanimous settlement is described beginning at line 15 of page 28 of Company Witness Vaughan's direct testimony in this case.

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Flowing through the existing over-recovery over the twelve months beginning October 2019 would result in a monthly Tariff P.P.A. credit of (\$1.53) for the average residential customer using 1,253 kWh of electricity per month. Beginning October 2020, however, Kentucky Power estimates that the monthly credit would swing to a monthly Tariff P.P.A. charge of \$4.12 for the average residential customer using 1,253 kWh of electricity per month. By contrast, the Company's proposal is expected to result in a monthly Tariff P.P.A. charge beginning October 2020 of \$2.49 for the average residential customer.

The total bill for an average residential customer would be affected in a similar fashion. Kentucky Power estimates that the total bill for the average residential customer using 1,253 kWh of electricity per month would be \$151.81 beginning October 2019 under the Company's proposal. The same residential customer would see a total bill of \$149.97 if the over-recovery were flowed through beginning October 2019. Beginning October 2020, however, Kentucky Power estimates that the total bill for the average residential customer using 1,253 kWh per month would be \$156.34 if the current over-recovery were flowed through beginning October 2019. By contrast, the same customer's bill beginning October 2020 would be \$154.50 under the Company's proposal.²

Kentucky Power offers to meet with Staff and intervenors to answer any questions they may have regarding the Company's proposal for Tariff P.P.A.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

MRO
cc: Counsel of record (via e-filing system)

² The changes in the total bill indicated also reflect the effect of the percentage of revenue riders.