COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY TO DEFER A PORTION OF FUEL ADJUSTMENT CLAUSE CHARGES FOR LATER COLLECTION WITHOUT ESTABLISHING A REGULATORY ASSET	: : : : : :	**Case No 2022-00125**

RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

KIUC does not object to Kentucky Power's request to: 1) defer $3 million of fuel and purchase power costs incurred in March of 2022 for later recovery in May, June and July 2022; and 2) to begin recovering $1 million of previously deferred fuel and purchase power costs.

However, the Commission should be apprised that extremely high Fuel Adjustment Clause ("FAC") rates do not appear to be an anomaly, but instead could be the new normal.

Rockport – Kentucky Power's Unit Power Agreement with AEP Generating Company ("AEGCO") for 30% of AEGCO's 50% ownership interest in each of the 1,300 MW Rockport Units 1 and 2 (15% total) expires on December 8, 2022. Indiana Michigan Power Company ("I&M") owns the other 50% of Rockport Units 1 and 2 and purchases AEGCO's remaining 35% interest, for a total I&M share of 85%. Pursuant to the August 1, 1984 Rockport Operating Agreement between I&M, AEGCO and Kentucky Power, I&M operates and maintains the plant. Rockport is I&M's highest fuel cost resource and is dispatched after I&M's hydro, solar, and wind PPAs (zero fuel cost), its 2,278 MW Cook nuclear facility (about $6/MWh fuel cost) and its take-or-pay OVEC obligation ($24/MWh fuel cost). I&M self-commits the Rockport Units into the PJM energy market. I&M considers Rockport to be load following capacity, not base load. The ability of Rockport to run is currently limited due to a fuel supply shortage.

On January 31, 2022 in Cause No. 38702-FAC88, I&M filed with the Indiana Commission its projected fuel cost adjustment for the six-month period April 2022 through September 2022. I&M projected that Rockport would operate at a 22% capacity factor over that six-month period and would have average fuel expenses of $37.7/MWh. This would result in Kentucky Power receiving approximately 62,634 MWh per month (390 mw X 730 hours per month x 22%) at a cost of $37.7/MWh. Kentucky Power has monthly retail sales of approximately 450,000 MWh, so Rockport would satisfy only about 14% of retail energy needs.

Kentucky Power pays AEGCO between $50 million and $56 million in annual capacity costs, plus an additional $6.2 million annually through the above cost Tariff CC (Capacity Charge). For these payments, Kentucky Power will receive very little energy. Even at $37.7/MWh, Rockport is less expensive than current market purchases.

Mitchell – On April 19, 2022, Appalachian Power and Wheeling Power ("Wheeling") filed their Expanded Net Energy Cost ("ENEC") with the West Virginia Commission for the forecast period September 2022 through August 2023 (Case No. 22-0393-E-ENEC). For the twelve months ending February 2022, the Mitchell fuel expense averaged $24.23/MWh. The good news is that for the twelve months ending August 2023 the Mitchell fuel expense is projected to only be $28.22/MWh. The bad news is that Mitchell is not expected to operate in very many hours.

In Kentucky Power's most recent FAC (expense month of March 2022), the Company incurred only $13,308 in coal costs. This means that Kentucky Power received basically no energy from either Mitchell Unit in March. But Kentucky Power did incur over $20 million in purchase power expenses at an average cost of $44.6/MWh. This $44.6/MWh cost is a blend of Rockport energy purchases and PJM energy purchases. The failure of Mitchell to operate is one of the driving forces behind the need to defer FAC costs.

For the twelve-month period ending February 2022, the average capacity factor for Mitchell Unit 1 was 23.27% and for Unit 2 was 47.94%. The projected capacity factor is even worse. For the one-year period September 2022 through August 2023, the capacity factor for Mitchell Unit 1 is projected to be 16.8% and for Unit 2 is projected to be 30.5%. At these projected capacity factors, Mitchell 1 and 2 would only provide about 30% of Kentucky Power's retail energy needs.

There are a number of reasons for Mitchell's low-capacity factor, including limited coal supplies, but the bottom line for Kentucky ratepayers appears to be continued very high reliance on market purchases. The physical hedges against market purchases that Rockport and Mitchell were supposed to provide appear to be largely unavailable. There is no evidence that reduced coal generation is part of an AEP system-wide CO2 reduction effort.

Big Sandy 1 – The 260 MW Big Sandy 1 gas plant does provide some level of physical hedge. But at current gas prices Big Sandy is operating at a fuel cost of approximately $70/MWh. So it is an expensive hedge.

Market Purchases – The forward prices for on-peak and off-peak market purchases at the AEP-Dayton PJM Hub are not comforting. As of April 26, 2022, the CME Group/NYMEX on-peak energy forward price at the AEP-Dayton Hub for the twelve-month period May 2022 through April 2023 averages $102.8/MWh. The off-peak forward price over the same period at the same Hub averages $78.1/MWh.

If Rockport and Mitchell were operating at full output, then Kentucky Power would be a net seller (especially in the summer months since it is a winter peaking utility) and these high market energy prices would serve to lower rates in Kentucky.

Conclusion – High FAC rates appear very likely over at least the next year, and probably longer. There are many reasons for this, some potentially in the control of Kentucky Power and some clearly not. Deferring costs or levelizing payments is helpful, but does not address the core issues.

Respectfully submitted,

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