

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

**AN ELECTRONIC EXAMINATION)
OF THE APPLICATION OF THE)
FUEL ADJUSTMENT CLAUSE OF) Case No. 2022-00263
KENTUCKY POWER COMPANY FROM)
NOVEMBER 1, 2021 THROUGH APRIL 30, 2022)**

**DATA REQUEST RESPONSES OF THE ATTORNEY GENERAL AND KIUC TO
REQUESTS OF COMMISSION STAFF**

Come now the intervenors, the Attorney General of the Commonwealth of Kentucky, by his Office of Rate Intervention (“Attorney General”) and Kentucky Industrial Utility Customers (“KIUC”), and submit these Data Request Responses to Commission Staff.

Respectfully submitted,

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Certificate of Service and Filing

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that, on January 6, 2023, an electronic copy of the foregoing was served via the Commission's electronic filing system.

this 6th day of January, 2023.

A handwritten signature in blue ink, appearing to read "J. Michael New". The signature is written in a cursive style with a horizontal line extending from the end.

Assistant Attorney General

Responses

- 1-1 Refer to the Direct Testimony of Lane Kollen (Kollen Testimony), page 6 lines 15-23.
- a. If Kentucky Power Company is making energy purchases greater than 100 MW in a given hour, assuming the implementation of the Joint Intervenors' generation unit startup cost recommendations, explain why the Base Unit Equivalent (BUE) method is a superior method to assuming that Kentucky Power Company would start up a second 100 MW combustion turbine (CT) or as many as needed to cover energy purchases in the existing Peaking Unit Equivalent (PUE) method.
 - b. Refer also to Kollen Testimony, page 20, lines 5-19. For example, if there were a 190 MW energy purchase and a second CT were to be included in the PUE method for purchases greater than 100 MW and applying the Joint Intervenors' generation unit startup cost recommendations, explain the appropriate way to calculate the economy purchase price cap.
 - c. Using the example in part b. above, compare that result to the 190 MW energy purchase using the PUE/BUE method.

Response:

- a. The present FAC rule is intended to provide timely recovery of prudent and reasonable fuel and economy purchased power expenses, subject to performance incentives in the form of potential disallowances. One of the performance incentives is to limit the recovery of purchased power expense to replace the lost energy from generating unit forced outages. Another performance incentive is to limit the recovery of purchased power expense economy purchases using a "price cap" based on the cost of the Company's own generation. Kentucky Power Company does not own peaking capacity, in part due to the fact that it historically was able to rely on low cost purchased power produced by generating units owned by its AEP affiliates with diverse load profiles. That no longer is the case and the Company purchases power in the PJM energy markets to meet its peaking requirements. In contrast to the lack of owned peaking capacity, the Company does own base load generating capacity, but does not operate that capacity or operates it at low capacity factors. Instead of actually operating its base load capacity, whether due to maintenance, fuel supply, or other problems, the Company purchases power in the PJM energy

markets, generally at much higher cost than if it had operated its base load generating units.

A peaking unit equivalent may be appropriate to address the purchased power required to meet the Company's peaking requirements, but it is not appropriate to determine the reasonable cost of the purchased power required to meet the Company's non-peaking requirements that could have and should have been met by its base load generating units. The PUE methodology, as applied by the Company, assumes that a single peaking unit has unlimited capacity to meet all of the Company's energy requirements in the hours when it purchases more than it generates. That assumption is unreasonable for the reasons cited by Mr. Kollen and Mr. Futral in their direct testimonies.

The question posits the circumstance where multiple hypothetical peaking units would replace the Company's single hypothetical peaking unit, but still have unlimited capacity to meet all of the Company's energy requirements in the hours when it purchases more than it generates. Such an assumption is unreasonable for the same reasons that a single hypothetical peaking unit is unreasonable. A prudent and reasonable utility company does not operate only peaking units to meet its load requirements. Thus, it is unreasonable to assume that the Company be allowed to meet the entirety of its load requirements not met by its own generation with one or multiple hypothetical peaking units. To do so, would reward the Company for the poor performance of its generating units, the complete opposite result from the performance incentives in the FAC rule to operate all generating units well and to achieve the least reasonable fuel and purchased power expense.

- b. It would be calculated in the same manner described and utilized by Mr. Futral for the single 100 mW hypothetical peaking unit with the startup costs allocated over the average hours that the peaking unit would operate once it is started, but instead using two hypothetical peaking units consisting of 190 mW in total and with the startup costs allocated in the same manner for this purpose.
- c. Refer to the attached Excel workbooks for each month during the review period, which are similar to the Excel work used by Mr. Futral to calculate the effects for each month of a single 100 mW hypothetical peaking unit. Mr. Futral simply replaced the single 100 mW unit with the two units consisting of 190 mW in total for each month. Refer also to the attached Excel workbook entitled "Summary of Difference in PUE Using \$4.62 Startup for 190mW and BUE," which provides a summary of the calculations. The FAC disallowance using two units consisting of 190 MW

AN ELECTRONIC EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT
CLAUSE OF KENTUCKY POWER COMPANY FROM NOVEMBER 1, 2021 THROUGH APRIL
30, 2022, Case No. 2022-00263

would be \$16.828 million, not the \$21.636 million disallowance that I
recommend.

Response provided by Lane Kollen

- 1-2 In special circumstances where the utility is having trouble sourcing and maintaining adequate fuel supplies above PJM's ten day minimum supply requirement, explain whether the PUE/BUE method forces the utility into the choice of satisfying native load by drawing fuel supply below target levels and not violating PJM's ten day fuel supply rule or offering units into the day ahead market with an adder thus not running the units and purchasing high-cost power instead.

Response:

The PUE/BUE methodology is consistent with the ratemaking recovery framework in the FAC rule that limits recovery of purchased power expense to economy purchases. The utility is required to act prudently. The utility may recover only prudent and reasonable costs pursuant to the FAC rule. The ratemaking recovery is an after the fact consequence of its decision making in real time. It is the utility's responsibility to manage its fuel supply and the maintenance and operation of its generating units. If it has inadequate fuel supply, has not properly maintained its generating units, or otherwise does not operate them when they are economic, then it is responsible for the purchased power expense due to market energy purchases in excess of the fuel expense if it had operated its own generating units. This is something that only the utility can do; the customer cannot; the Commission cannot. The utility is not forced into behavior by the PUE/BUE methodology or the FAC rule. The ratemaking framework provides recovery based on the responsibility of the utility for its decision making and actions.


Response provided by Lane Kollen

AFFIDAVIT

STATE OF GEORGIA)


COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached are his sworn responses and that the statements contained are true and correct to the best of his knowledge, information and belief.



Lane Kollen

Sworn to and subscribed before me on this
6th day of January 2023.



Notary Public