

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF KENTUCKY	)	CASE NO.
POWER COMPANY FOR THE SIX-MONTH	)	2010-00020
BILLING PERIOD ENDING DECEMBER 31, 2009	)	

ORDER

On February 5, 2010, the Commission initiated a six-month review of Kentucky Power Company's ("Kentucky Power") environmental surcharge<sup>1</sup> as billed to customers for the six-month period July 1, 2009 through December 31, 2009.<sup>2</sup> Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge. The Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable pursuant to KRS 278.183(1).

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<sup>1</sup> Kentucky Power was authorized to implement an environmental surcharge in Case No. 1996-00489, The Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Wastes and By-Products (Ky. PSC May 27, 1997).

<sup>2</sup> Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings for July 2009 recover costs incurred in May 2009, and every subsequent monthly surcharge billing under review recovers costs incurred two months prior to billing.

The Commission issued a procedural schedule on February 5, 2010 that provided for discovery, the filing of prepared testimony, and an informal conference. Kentucky Power filed its response to requests for information and appeared at an informal conference on March 11, 2010. There were no parties requesting intervenor status to this proceeding. In its response to the Commission's Order of April 6, 2010, Kentucky Power stated that there were no material issues of fact that warranted a hearing in this case. The matter now stands submitted for a decision based on the evidentiary record.

#### SURCHARGE ADJUSTMENT

The February 5, 2010 Order initiating this case indicated that, since the period under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. Kentucky Power determined that it had no adjustments to its environmental costs. The Commission has reviewed and finds reasonable Kentucky Power's calculation of any over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments of Kentucky Power's environmental costs as a result of its review.

#### RATE OF RETURN

In Case No. 1996-00489, the Commission found that Kentucky Power's debt portion of its weighted average cost of capital should be reviewed and reestablished during each six-month review case and that the rate of return on common equity would remain fixed and subject to review during the two-year environmental surcharge

reviews. The weighted average cost of capital constitutes the rate of return applicable to Kentucky Power's environmental compliance rate base.<sup>3</sup>

Kentucky Power provided the outstanding balances for its long-term debt, short-term debt, accounts receivable financing, and common equity as of October 31, 2009, the last expense month of the review period. It also provided the blended interest rates for the long-term debt, short-term debt, and accounts receivable financing as of October 31, 2009.<sup>4</sup> Using this information, Kentucky Power calculated a weighted average cost of capital before income tax gross-up of 7.96 percent.<sup>5</sup> Kentucky Power also provided its updated income tax gross-up factor reflecting the methodology<sup>6</sup> approved in Case No. 2005-00068.<sup>7</sup>

The Commission has reviewed Kentucky Power's determination of its weighted average cost of capital and finds the 7.96 percent calculation to be reasonable. The Commission has also reviewed the determination of the tax gross-up factor and finds that it is consistent with the approach approved in Case No. 2005-00068. Therefore,

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<sup>3</sup> This weighted average cost of capital is applied only to the environmental compliance rate base associated with plant installed at Kentucky Power's Big Sandy generating units.

<sup>4</sup> Response to the Commission Staff's First Data Request dated February 25, 2010, Item 10.

<sup>5</sup> Id.

<sup>6</sup> Response to the Commission Staff's Data Request dated February 25, 2010, Item 10, page 18 of 19. In the response, Kentucky Power determined that its updated income tax gross-up factor was 1.5760.

<sup>7</sup> Case No. 2005-00068, Application of Kentucky Power Company for Approval of an Amended Compliance Plan for Purposes of Recovering Additional Costs of Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff (Ky. PSC Sept. 7, 2005).

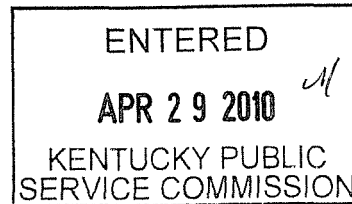
the Commission finds that the weighted average cost of capital of 7.96 percent and the income tax gross-up factor of 1.5760 should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

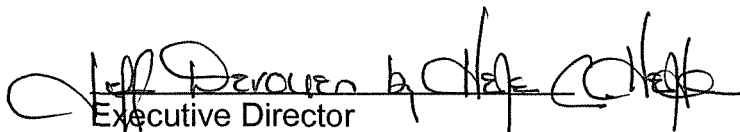
1. The amounts billed by Kentucky Power through its environmental surcharge for the period July 1, 2009 through December 31, 2009 are approved.

2. Kentucky Power shall use a weighted average cost of capital of 7.96 percent and a tax gross-up factor of 1.5760 in all monthly environmental surcharge filings subsequent to the date of this Order.

By the Commission



ATTEST:

  
Executive Director

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