

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER	)	
COMPANY FOR APPROVAL OF ITS 2011	)	
ENVIRONMENTAL COMPLIANCE PLAN, FOR	)	
APPROVAL OF ITS AMENDED	)	CASE NO.
ENVIRONMENTAL COST RECOVERY	)	2011-00401
SURCHARGE TARIFF, AND FOR THE GRANT	)	
OF A CERTIFICATE OF PUBLIC	)	
CONVENIENCE AND NECESSITY FOR THE	)	
CONSTRUCTION AND ACQUISITION OF	)	
RELATED FACILITIES	)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION  
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers ("KIUC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 12 copies of the following information, with a copy to all parties of record and two copies to the Commission's consultant.<sup>1</sup> The information requested herein is due by April 2, 2012. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be

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<sup>1</sup> Copies should be served on: Walter P. Drabinski, Vantage Energy Consulting, LLC, 21460 Overseas Highway, Cudjoe Key, Florida 33042; Chuck Buechel, Vantage Energy Consulting, P.O. Box 75018, Fort Thomas, Kentucky 41075; and Mike Boismenu, 2645 West Marion Avenue, Apt. 111, Punta Gorda, Florida 33950.

accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KIUC shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which KIUC fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 3, beginning at line 18, of the Direct Testimony of Stephen G. Hill. It states, "the Companies have ignored the fact that the return recovery method utilized in the environmental surcharge mechanism, which allows recovery of costs during construction only two months after those costs are incurred, represents a very low-risk alternative to the normal used-and-useful regulatory paradigm."

- a. Identify the "Companies" referenced in the above quote.
- b. Clarify whether it is Mr. Hill's understanding that Kentucky Power Company ("Kentucky Power") is requesting to recover costs incurred during construction within two months after those costs are incurred.

c. Identify where in its application Kentucky Power indicates that it is requesting to recover costs incurred during construction within two months after those costs are incurred.

d. Explain whether it is Mr. Hill's understanding that Kentucky Power earns a cash return on Construction Work In Progress ("CWIP") in base rate and environmental cost proceedings.

e. Explain whether it is Mr. Hill's position, if Kentucky Power does not earn a cash return on CWIP in base rate and environmental proceedings, that the allowed return should be set at the higher end of a reasonable range to recognize the higher-risk nature of environmental construction cost recovery.

2. Refer to page 6, starting at line 7, of the Direct Testimony of Stephen J. Baron ("Baron Testimony"). It states:

"[t]he Commission should modify the ECR rate recovery mechanism among all other rate classes (primarily, business customers) such that the ECR recovery factor for these rate schedules is determined by recovering the ECR revenue requirement on the basis of non-fuel base revenues. The ECR recovery factor should be calculated for these non-residential rates using a ratio of the allocated ECR revenue requirement to non-fuel base revenues. Because the environmental costs at issue in this case are primarily demand-related there is no basis to allocate those costs to non-residential customers based on their fuel usage. Using a 'non-fuel base revenue' ECR recovery factor will also enhance the competitiveness of the Company's largest, high load factor manufacturing customers who must compete on a national and international basis."

a. Explain whether Mr. Baron believes that there is a relationship between energy consumed and emissions caused by the generation of that energy.

b. Explain whether Mr. Baron believes that, due to the type of fuel consumed at the Big Sandy plant, the installation of a Flue Gas Desulfurization (“FGD”) is required due to the Clean Air Act if the plant is to continue to operate.

c. Is it correct that, under Mr. Baron’s allocation proposal, the industrial or commercial customers using the greatest amounts of energy will be allocated a lesser amount of environmental costs on a percentage basis than the customers using the least amount of energy?

d. If Mr. Baron’s proposed allocation methodology will enhance the competitiveness of Kentucky Power’s largest, high load factor manufacturing customers, who must compete on a national and international basis, identify the customers for whom this methodology will have a detrimental effect and explain why it will have such an effect.

e. Explain whether it is correct that, under Mr. Baron’s proposed allocation methodology, the level of emissions, which is what Kentucky Power is seeking to control, and which is a direct result of the amount of electricity generated, will not impact the allocation of environmental costs to the non-residential rate classes.

f. Explain whether the statement, “[t]he Commission should modify the ECR rate recovery mechanism among all other rate classes (primarily, business customers) such that the ECR recovery factor for these rate schedules is determined by recovering the ECR revenue requirement on the basis of non-fuel base revenue” means that Mr. Baron is recommending that the ECR recovery factor for non-residential customers should be based on base revenues, and exclude both base fuel revenues and fuel adjustment clause revenues.

g. Explain why the “non-fuel revenue” ECR allocation methodology proposed by Baron will apply only to the non-residential classes and not the residential class.

3. Refer to page 6, starting at line 21, of the Baron Testimony. It states:

“[t]he modified two-step ECR rate recovery mechanism should also apply to the recovery of costs from all current ECR projects that are subject to ECR surcharge recovery. Also, in any subsequent roll-in of ECR costs to base rates, the roll-in should reflect separate residential and non-residential adjustments to base rates following the two-step allocation methodology recommended by KIUC. Residential base rates would be adjusted using the current methodology; non-residential rates would be adjusted on a non-fuel base rate basis.”

a. Explain whether Mr. Baron believes that the best method to roll environmental costs into base rates is through a base rate case.

b. Explain whether it is Mr. Baron’s understanding that, historically, Kentucky Power has rolled environmental costs into base rates only as part of a base rate case.

c. Explain whether Mr. Baron believes that rolling environmental costs into base rates at the time of a base rate case assists the Commission with consistent application of cost-of-service and cost causation principles.

4. Refer to page 3, starting at line 21 and continuing to page 4, of the Direct Testimony of Lane Kollen (“Kollen Testimony”) which states, “[t]he Company has not demonstrated that the BS2 retrofit projects are reasonable and cost-effective, the standard set forth in KRS 278.183.” Explain how Mr. Kollen determined that Kentucky Power has not demonstrated that the proposed projects are reasonable and cost-effective.

5. Refer to page 9, starting at line 13, of the Kollen Testimony. It states, "I estimate that this will increase the Company's revenue requirement by another 10% to 15%." Provide all calculations that support this conclusion.

6. Refer to pages 32-34 of the Kollen Testimony which address the allocation of short-term debt to Kentucky Power's environmental cost recovery based on CWIP rather than on rate base.

a. Under Mr. Kollen's recommended allocation, a greater percentage of short-term debt will be allocated to environmental cost recovery. Is it correct that this will result in decreasing the percentage of short-term debt allocated to base rates?

b. Explain whether this allocation approach will reduce a utility's total revenue requirement or if it results in shifting the reduction in the environmental revenue requirement to the base rate revenue requirement.

7. Refer to pages 35-40 of the Kollen Testimony which address the use of "Mirror CWIP" as a means of mitigating the revenue requirement in the early years after the Big Sandy 2 scrubber is placed in service.

a. Identify the state utility regulatory commissions of which Mr. Kollen is aware that use, or have used, Mirror CWIP in the manner he describes.

b. Provide the three most recent orders from these commissions in which the use of Mirror CWIP was required.

8. Refer to pages 47-48 of the Kollen Testimony which address the cost of \$15.2 million incurred by Kentucky Power in 2004-2006 for preliminary investigation and evaluation of wet scrubber technologies.

a. Kentucky Power's response to Item 18 of Commission Staff's First Information Request identifies \$1.65 million of these costs as "FGD Landfill" costs that "[c]an and will be used with the proposed DFGD technology." If the Commission were to approve Kentucky Power's proposed scrubber project, explain why it would not be appropriate to permit recovery of a portion of the cost related to the landfill.

b. Mr. Kollen cites Commission decisions in Case Nos. 2010-00523 and 2011-00036 as support for his recommendation that Kentucky Power be denied recovery of the preliminary investigation costs.<sup>2</sup> Explain whether Mr. Kollen is aware that in both cited cases the utility had not deferred the costs in question but had charged them to expense in the year in which they were incurred and then presented a proposal seeking Commission approval to retroactively defer the costs.

9. Refer to page 4, lines 8-9, of the Kollen Testimony. Specify the options that Mr. Kollen believes "were not fully evaluated by the Company." Provide any analysis that Mr. Kollen has performed relative to these options.

10. Refer to pages 10-11 of the Kollen Testimony, which describe the two purchase power alternatives Kentucky Power used in its analysis. Indicate whether Mr. Kollen agrees or disagrees with the capacity and energy prices used in the analysis. If he disagrees, provide his proposed alternative prices.

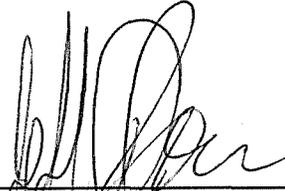
11. Refer to page 19 of the Kollen Testimony. Mr. Kollen suggests that gas price projections are below Kentucky Power's base case natural gas price forecast.

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<sup>2</sup> Case No. 2010-00523, Application of Duke Energy Kentucky, Inc. for an Order Approving the Establishment of a Regulatory Asset Related to Voluntary Opportunity and other Post-Retirement Expenses (Ky. PSC July 14, 2011), and Case No. 2011-00036, Application of Big Rivers Electric Corporation for a General Adjustment in Rates (Ky. PSC Nov. 17, 2011).

Which gas price projections or range of gas price projections would Mr. Kollen recommend for use in the analysis?

12. Refer to page 24, lines 6-14, of the Kollen Testimony. Mr. Kollen proposes a separate proceeding to develop a least-cost option. Expand on this proposal and delineate the likely parties, the role of the parties, and potential schedule.



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DATED MAR 23 2012

cc: Parties of Record

Case No. 2011-00401

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