

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 TWO-YEAR)	2013-00325
BILLING PERIOD ENDING JUNE 30, 2013)	

ORDER

On May 27, 1997, the Commission approved Kentucky Power Company's ("Kentucky Power") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), the Commission must review and evaluate the past operations of the environmental surcharge at two-year intervals. After hearing, the Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. Therefore, the Commission hereby initiates the two-year review of Kentucky Power's surcharge as billed from July 1, 2011 through June 30, 2013.²

On March 29, 2013, Kentucky Power filed with the Commission written notification of its election pursuant to 807 KAR 5:001, Section 8, to use the electronic filing procedures in all future company six-month and two-year environmental surcharge

¹ 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).

² Since Kentucky Power's surcharge is billed on a two-month lag, the amounts billed from July 2011 through June 2013 are based on costs incurred from May 2011 through April 2013.

review proceedings.³ As 807 KAR 5:001, Section 8, permits the Commission to direct the use of electronic filing procedures for proceedings which we initiate on our own motion, we find that electronic filing procedures should be used. As such, Kentucky Power should follow the procedures set forth in 807 KAR 5:001, Section 8, when filing any document or paper in this matter.

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, Kentucky Power is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review; and (b) on a proposal to roll its environmental surcharge into existing base rates. In addition, Kentucky Power is to file its response to the information requested in Appendix B, attached hereto and incorporated herein. Since over- or under-recoveries may have occurred during the period under review in this proceeding, the Commission will entertain proposals to adopt one adjustment factor to net all over- or under-recoveries.

Since the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted three amendments to its original compliance plan and surcharge mechanism. As a result, the environmental surcharge provides recovery of the incremental costs associated with the original and first amendment to the compliance plan, as well as the costs associated with the second and third amendments to the compliance plan. When determining its over- and under-

³ Letter from Mark R. Overstreet, Counsel for Kentucky Power Company, to Jeff Derouen, Executive Director, Public Service Commission (Mar. 29, 2013).

recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

IT IS HEREBY ORDERED that:

1. Unless otherwise ordered by the Commission, the procedures set forth in 807 KAR 5:001, Section 8, shall be followed when filing papers in this proceeding.

2. Within seven days of the date of this Order, Kentucky Power shall file a statement as to whether they or their agents waive any right to service of Commission Orders by United States mail.

3. Unless a party granted leave to intervene states its objection to the use of electronic filing procedures in a motion for intervention, the party shall:

a. Be deemed to have consented to the use of electronic filing procedures and the service of all papers, including Orders of the Commission, by electronic means; and

b. Within seven days of the date of an Order of the Commission granting its intervention, file with the Commission a written statement that:

(1) It waives any right to service of Commission Orders by United States mail; and

(2) It, or its authorized agent, possesses the facilities to receive electronic transmissions.

4. If a party objects to the use of electronic filing procedures and the Commission determines that good cause exists to excuse that party from the use of electronic filing procedures, service of documents on that party and by that party shall be made in accordance with 807 KAR 5:001, Section 4(8).

5. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

6. Any party who submits a motion to intervene after October 28, 2013 and, upon a showing of good cause, is granted full intervention shall accept and abide by the existing procedural schedule.

7. Kentucky Power shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review.

8. a. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall include the name of the witness responsible for responding to the questions related to the information provided.

b. 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 accompanied by a signed certification of the preparer or 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.

c. Any party 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.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

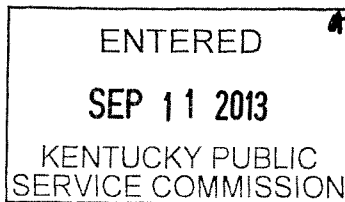
9. Within seven days of the Commission's granting intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

10. Kentucky Power's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

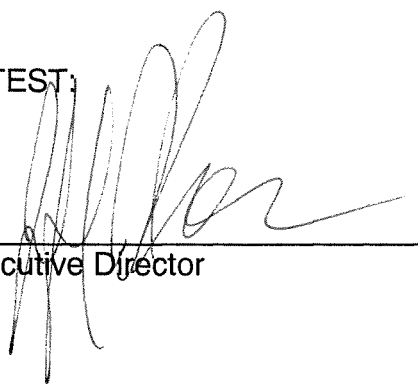
11. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

12. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00325 DATED **SEP 11 2013**

- Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than.....10/04/13
- An informal conference is to begin at 1:30 p.m., Eastern Daylight Time, in Conference Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the discussion of issues.....10/23/13
- A person interested in becoming a party to this proceeding shall file a motion to intervene with the Commission pursuant to 807 KAR 5:001, Section 4(11) no later than.....10/28/13
- All additional requests for information to Kentucky Power shall be filed no later than11/07/13
- Kentucky Power shall file responses to additional requests for information no later than11/21/13
- Intervenor testimony, if any, in verified prepared form shall be filed no later than12/02/13
- All requests for information to Intervenors shall be filed no later than12/12/13
- Intervenors shall file responses to requests for information no later than12/23/13
- Last day for Kentucky Power to request a hearing or submit this case for decision based on the record.....12/30/13

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2013-00325 DATED **SEP 11 2013**

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

1. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing period. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. Include a calculation of any additional over- or under-recovery amount Kentucky Power believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

2. The net gain or loss from sulfur dioxide and nitrogen oxide emission allowance sales is reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For the last six expense months of the billing period under review, explain how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was the source of the gain or loss.

3. In Case No. 1996-00489, the Commission ordered that Kentucky Power's rate of return on common equity for the environmental surcharge would be reviewed for reasonableness during the two-year review case. Currently, the rate of return on common equity is 10.5 percent.

a. Does Kentucky Power believe that the 10.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.

b. If the response to part (a) is no, what rate of return on common equity does Kentucky Power propose for its environmental surcharge? Provide a detailed analysis and testimony supporting Kentucky Power's position.

4. Provide the following information as of April 30, 2013: (In addition to the electronic filing, provide the information in Excel spreadsheet format with the formulas intact and unprotected.)

a. The outstanding balances for long-term debt, short-term debt, accounts receivable financing, and common equity.

b. The blended interest rates for long-term debt, short-term debt, and accounts receivable financing. Include all supporting calculations showing how these blended interest rates were determined.

c. Kentucky Power's calculation of its weighted average cost of capital for environmental surcharge purposes.

d. The weighted average cost of capital reflecting the application of the income tax gross-up factor. Include all calculations and assumptions used in the determination.

5. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Does Kentucky Power believe any additional surcharge amounts need to be incorporated into its base rates in conjunction with this two-year review?

b. If the response to part (a) is yes, provide the additional surcharge amount that Kentucky Power believes should be incorporated into its existing base rates. Explain how the surcharge amount should be incorporated into the base rates. Include all supporting calculations, workpapers, and assumptions, as well as any analysis that Kentucky Power believes support its position.

6. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 16, Monthly Environmental AEP Pool Capacity Costs, from ES Form 3.14, Page 1 of 11, Column 5, Line 10. For the November 2012 through April 2013 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

7. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13. For the November 2012 through April 2013 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

8. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO₂ Emission Allowances. For the November 2012 through April 2013 expense months, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

9. Reference ES Form 3.11 for the months in this review period.
 - a. For each month in the two-year review period, provide the calculation that supports the total cost of allowances consumed that is then carried to ES Form 3.10.
 - b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 10.a.
10. Provide the actual average residential customer's monthly usage. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's bill for the requested recovery period. Provide all supporting calculations and documentation.
11. The Stipulation and Settlement Agreement in Case No. 2012-00578⁴ provides that effective January 1, 2014, the environmental surcharge factor will be fixed and maintained at zero percent until new base rates are set by the Commission. Assuming the Stipulation and Settlement Agreement is approved by the Commission, explain how Kentucky Power proposes to collect or refund any over- or under-collection of the environmental surcharge expenses for November and December 2013.

⁴ Case No. 2012-00578, Application of Kentucky Power Company for (1) a Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) all other Required Approvals and Relief (Ky. PSC filed Dec. 19, 2012).

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