COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY POWER COMPANY FROM NOVEMBER 1, 2013 THROUGH APRIL 30, 2014	))))	CASE NO. 2014-00225

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

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission an original paper copy and an electronic copy of the following information, with a copy to all parties of record. The information requested herein is due no later than September 15, 2014. 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 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 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.

Kentucky Power 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 Kentucky Power 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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Kentucky Power's response to Item 26 of the Commission's August 13, 2014 Request for Information ("August 13, 2014 Request").

a. Kentucky Power makes reference to 807 KAR 5:056 Section 1(3), KRS 278.160, and the Commission's Order dated February 7, 2005, in Case No. 2004-00430.[1] Provide the specific text of the regulation and statute and the specific page number and text of the Order to which Kentucky Power is referring in this response.

b. Refer to the February 7, 2005 Order issued in Case No. 2004-00430 referenced in Kentucky Power's response. The top of page 4 states that the 807 KAR 5:056, Section 1(3) "also permits the recovery of 'actual identifiable fossil and nuclear fuel costs associated with energy purchased' in non-economy transactions." This statement is footnoted and refers the reader to the May 2, 2002 Orders issued in

[1] Case No. 2004-00430, *East Kentucky Power Cooperative's Request for a Declaratory Ruling on the Application of Administrative Regulation 807 KAR 5:056 to its Proposed Treatment of Non-Economy Energy Purchases* (Ky. PSC Feb. 7, 2005).

both Case No. 2000-00495-B[2] and Case No. 2000-00496-B[3] "for a discussion of the methodology for calculating the fuel cost of such transactions." On page 5 of the May 2, 2002 Order in Case No. 2000-00495-B, the Commission states:

> We interpret Administrative Regulation 807 KAR 5:056 as permitting an electric utility to recover through its FAC only the lower of the actual energy cost of the non-economy purchased energy or the fuel cost of its highest cost generating unit available to be dispatched to serve native load during the reporting expense month. Costs for non-economy energy purchases that are not recoverable through an electric utility's FAC are considered "non-FAC expenses" and, if reasonably incurred, are otherwise eligible for recovery through base rates.

The Order, also on page 5, goes on to state that "[w]e place AEP on notice that this interpretation shall be applied to all energy purchases made after April 30, 2002." Because Kentucky Power (d/b/a American Electric Power at that time) was unique in that it did not own a combustion turbine, it sought and was granted rehearing in that proceeding. By Order dated October 3, 2002, Kentucky Power was granted authority to use the "Peaking Unit Equivalent" approach to calculate the level on non-economy purchase power costs to recover through the fuel adjustment clause ("FAC"). The Peaking Unit Equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

(1) Given the language in the May 2, 2002 and October 3, 2002 Orders issued in Case No. 2000-00495-B, explain why Kentucky Power believes it is

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[2] Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002).

[3] Case No. 2000-00496-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of East Kentucky Power Cooperative, Inc. from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002).

appropriate to include the entire cost of non-economy purchases in the calculation of the FAC.

(2) For each month of the period under review, provide the dollar amount of power purchases that were made because of a planned outage that were included in the calculation of the FAC and the dollar amount of power purchases that would have been included had Kentucky Power applied the "Peaking Unit Equivalent" approach approved in the October 3, 2002 Order in Case No. 2000-00495-B.

2. Refer to Kentucky Power's response to Item 27 of the August 13, 2014 Request which states that "Kentucky Power includes 100% of the purchased power costs that it may incur during a time of an energy shortage that is not directly linked to a forced outage in the FAC."

a. Refer to the Commission's language quoted in Item 1.b. above and the May 2, 2002 Order issued in Case No. 2000-00496-B involving East Kentucky Power Cooperative, Inc. On page 5 of that Order, the Commission states:

> In reaching our interpretation, we are mindful of EKPC's concerns regarding power purchases made under emergency circumstances. We recognize that in such circumstances wholesale power market prices may significantly exceed the fuel cost of EKPC's highest cost generating unit available to serve native load. In those circumstances, EKPC may apply to the Commission for immediate rate recovery of those costs.

(1) Given the language from the two Commission orders, explain why Kentucky Power believes it is appropriate to include the entire cost of non-economy purchases in the calculation of the FAC.

(2) For each month of the period under review, provide the dollar amount of power purchases that were made to meet demand (when Kentucky

Power was not experiencing an outage) that were included in the calculation of the FAC and the dollar amount of power purchases that would have been included had Kentucky Power applied the "Peaking Unit Equivalent" approach approved in the October 3, 2002 Order in Case No. 2000-00495-B.

3. Refer to the response to Item 28 of the August 13, 2014 Request in which Kentucky Power states that "[r]unning all four units increased the amount of 'no-load costs' that have been historically and properly allocated to internal customers." State whether the basis for the determination that the "no-load costs" were "properly allocated" is based on the fact that they have been allocated "historically" to internal customers. If not, provide the basis for the determination that the "no-load costs" were "properly allocated."

4. Refer to the response to Item 29 of the August 13, 2014 Request.

a. Refer to the response to Item 29.a. State whether costs other than fuel costs are included in "no load costs." If so, identify the type of non-fuel costs included and state whether these costs are recovered through the FAC.

b. Refer to the response to Item 29.b.

1) The first paragraph states that "'[n]o load costs' are not associated with specific increments of generation" and that "[b]ecause 'no load costs' do not change when generation is increased or decreased, economic dispatch does not provide a basis for allocation of 'no load costs.'" State whether Kentucky Power's generating units are producing power during the time that "no load costs" are incurred. If so, explain the above statements and explain how the <u>power</u> that is generated is allocated (to internal load or off-system sales).

2) The second paragraph states that "[u]nits that are on-line in a given hour are assumed first to satisfy internal load, and only the controllable dispatch between the unit minimums and maximums may be available to make off-system sales (OSS) if additional economic power is available and it is not needed for internal load."

i. Provide the unit minimums and maximums for each of Kentucky Power's generating units, including Rockport.

ii. Provide the economic dispatch order for Kentucky Power's generating units, including Rockport.

iii. State whether the Rockport power purchased by Kentucky Power, Kentucky Power's share of the Mitchell units, and the Big Sandy units (all of these sources combined) were needed to satisfy internal load in January 2014, or at any time during the period under review. If so, provide the dates and duration when all sources were needed. If not, provide the sources (Rockport unit 1, Rockport unit 2, Mitchell unit 1, Mitchell unit 2, Big Sandy 1, and Big Sandy 2) that were needed to satisfy internal load and state whether the remaining sources of power were purchased or generated solely to make off-system sales.

3) The fourth paragraph makes reference to the AEP Interconnection Agreement. Given that the Interconnection Agreement is no longer in

effect and, as stated in the response to Item 28, Kentucky Power is allowed to keep off-system sales margins in excess of those included in base rates as part of the Settlement Agreement in Case No. 2012-00578,[4] explain why it is reasonable for internal load customers to pay 100 percent of "no load costs."

c. Refer to the response to Item 29.e. Provide the amount, by month, that would have been allocated to internal-load customers if "no load costs" had followed the allocation of all other fuel costs.

d. Refer to Attachment 1 filed in response to Item 29. State whether Big Sandy was needed to serve internal load during March and April 2014. If not, explain the MWhs allocated to internal load from the Big Sandy units shown on this page.

e. Refer to Attachment 2 filed in response to Item 29. Explain why Rockport "no load costs" are allocated to Kentucky Power native load customers when Kentucky Power does not own the Rockport units.

5. Refer to the response to Item 33.e.

a. State whether the Commission was informed in Case No. 2012-00578 of the change in accounting treatment that would be required at the Big Sandy Plant as a result of the Mitchell plant transfer. If not, explain.

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[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 Oct 7, 2013).

b. State whether there are any other required changes in accounting treatment as a result of the Mitchell plant asset transfer. If so, explain.

c. Provide the type of meter, measuring equipment, or associated device used at the generating units to determine the number of tons consumed each month and how often these devices are tested for accuracy.

d. The response states that the internal accounting policy regarding coal pile adjustments was formally adopted in August 2014 and was effective January 1, 2014. Provide all internal communications, both written and electronic, since January 1, 2013, discussing this internal accounting policy change and state whether this accounting policy change was made as a result of Commission Staff's questions regarding the Mitchell coal pile adjustment that were asked at the June 26, 2014 meeting held at the Commission's office.

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DATED SEP 05 2014

cc: Parties of Record

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