

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)	2014-00322
BILLING PERIOD ENDING JUNE 30, 2014)	

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 the past operations of the environmental surcharge at six-month intervals. After hearing, as ordered, the Commission may, by temporary adjustment to the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs that are recoverable pursuant to KRS 278.183(1). Therefore, the Commission hereby initiates the six-month review of the surcharge as billed from January 1, 2014 to June 30, 2014.²

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, 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 January 2014 through June 2014 are based on costs incurred from November 2013 through April 2014.

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 shall 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 in support of the reasonableness of the application of its environmental surcharge mechanism during the time period under review. In addition, Kentucky Power is to file its response to the information requested in Appendix B to this Order. 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. The environmental surcharge, as billed during the period under review, provides recovery of the incremental costs associated with the original compliance plan, as well as the costs associated with the first, second, and third amendments to the compliance plan. When determining its over- and under-recovery of the surcharge in this proceeding, Kentucky Power should reflect the impacts of these prior cases, as applicable.

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

IT IS THEREFORE 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 it or its agent waives 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, 2014, 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 of 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 are hereby 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

ENTERED
SEP 26 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00322 DATED **SEP 26 2014**

Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than 10/10/14

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 10/28/14

All additional requests for information to Kentucky Power shall be filed no later than 11/07/14

Kentucky Power shall file responses to additional requests for information no later than 11/18/14

Intervenor testimony, if any, in verified prepared form shall be filed no later than 12/01/14

All requests for information to Intervenors shall be filed no later than 12/10/14

Intervenors shall file responses to requests for information no later than 12/19/14

Last day for Kentucky Power to request a hearing or submit this case for decision based on the record..... 12/30/14

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00322 DATED **SEP 26 2014**

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

1. Provide a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the billing periods under review. Use ES Form 1.00 as a model for this summary. Include the two expense months subsequent to the billing periods 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 six-month 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 are reported on ES Form 3.00, Calculation of Current Period Revenue Requirement, Third Component. For each expense month covered by the billing period under review, provide an explanation of how the gain or loss reported in the expense month was calculated and describe the transaction(s) that was/were the source of the gain or loss.

3. Provide the following information as of April 30, 2014. 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 determining the information.

4. 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 2013 and December 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.

5. 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 2013 and December 2013 expense months, and Line 16 for the January 2014 to April 2014 expense months. For the November 2013 through April 2014 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.

6. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 18, Monthly SO₂ Emission Allowance Consumption for the November 2013 and December

2013 expense months, and Line 17 for the January 2014 to April 2014 expense months.. For the November 2013 through April 2014 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. Reference ES Form 3.11 for the months in this review period.

a. For each month in the six-month 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 7.a.

8. Provide the 12-month average residential customer's monthly usage as of April 30, 2014. 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 calculations in electronic spreadsheet format with all formulas intact and unprotected and all rows and columns accessible.

9. In previous environmental surcharge reviews, Kentucky Power agreed to include in its monthly environmental surcharge report costs associated with the Mitchell plant for illustrative purposes until an amended compliance plan for the Mitchell plant is filed and approved by the Commission. Provide the status of Kentucky Power's intent with regard to inclusion of Mitchell costs in the monthly environmental surcharge reports and filing of an amended compliance plan.

10. If the response to Item 1 proposes additional adjustments to environmental costs for the review period, explain whether the adjustments impact the

environmental costs assigned to non-associated utilities under the System Sales Clause. Provide a detailed analysis of any necessary adjustments to the environmental costs assigned to non-associated utilities resulting from the adjustments proposed in Item 1.

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