

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)	2016-00109
BILLING PERIOD ENDING DECEMBER 31, 2015)	

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 July 1, 2015 to December 31, 2015.²

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

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 July 2015 through December 2015 are based on costs incurred from May 2015 through October 2015.

filing procedures in all future company six-month and two-year environmental surcharge 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 to this Order. 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 the approval of its original environmental compliance plan and surcharge mechanism, Kentucky Power has sought and been granted four amendments to its original compliance plan and surcharge mechanism. During this review period, Kentucky Power billed costs incurred for Big Sandy Units 1 and 2 during the expense months of May 2015 through July 2015. Due to the retirement of Big Sandy Unit 2 in May 2015 and the planned conversion of Big Sandy Unit 1 to gas by June 2016,⁴ environmental costs associated with projects in the original plan and the first amendment are no longer incurred by Kentucky Power, and are therefore no longer

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

⁴ All costs associated with Big Sandy Unit 1 are recovered through the Big Sandy Unit 1 Operation Rider for service rendered on and after June 30, 2015, as approved in Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015).

included in its environmental surcharge. Previously, due to the termination of the AEP – East Pool Agreement on January 1, 2014, costs associated with the second and third amendments are no longer incurred by Kentucky Power, and they were not included in its environmental surcharge filings for this review period. The fourth amendment was approved June 22, 2015, in Case No. 2014-00396,⁵ and includes new and previously approved projects at the Mitchell and Rockport generating stations. The environmental surcharge as billed for the expense months of June 2015 through October 2015 provides recovery of the incremental costs associated with the fourth amendment 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.

IT IS THEREFORE ORDERED that:

1. Unless otherwise ordered by the Commission, the procedures set forth in 807 KAR 5:001, Section 8, related to the service and electronic filing of papers shall be followed in this proceeding.

2. Pursuant to 807 KAR 5:001, Section 8(9), within seven days of entry of this Order, Kentucky Power shall file a written statement, with a copy to parties of record, that:

a. It, or its authorized agent, possesses the facilities to receive electronic transmissions.

b. Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

⁵ *Id.*

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, or its authorized agent, possesses the facilities to receive electronic transmissions; and

(2) Sets forth the electronic mail address to which all electronic notices and messages related to this proceeding should be served.

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 to this Order shall be followed in this proceeding.

6. Any party who submits a motion to intervene after April 21, 2016, 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 April 6, 2016, 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 in Appendix B to this Order is due by April 6, 2016. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed, and shall include the name of the witness responsible for responding to the questions related to the information provided, with the original in paper medium and an electronic version to the Commission.

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.

e. A party filing a paper containing personal information shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

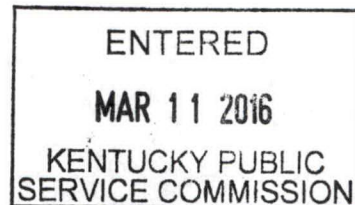
9. Within seven days of the Commission's granting of intervention to a party, Kentucky Power shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

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



ATTEST:


Acting Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00109 DATED **MAR 11 2016**

Kentucky Power shall file its prepared direct testimony and responses to the information requested in Appendix B no later than.....	4/06/16
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.....	4/21/16
Additional requests for information to Kentucky Power shall be filed no later than.....	5/06/16
Kentucky Power shall file responses to additional requests for information no later than	5/20/16
Intervenor testimony, if any, in verified prepared form shall be filed no later than.....	6/03/16
Requests for information to Intervenors shall be filed no later than	6/17/16
Intervenors shall file responses to requests for information no later than	7/01/16
Last day for Kentucky Power to request a hearing or submit this case for decision based on the record.....	7/16/16

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00109 DATED **MAR 11 2016**

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. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 16, Monthly 2003 Plan Non-Fuel O&M Expenses, from ES Form 3.13, for the May 2015 and June 2015 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.

4. Refer to ES Form 3.10, Costs Associated with Big Sandy, Line 17, Monthly SO2 Emission Allowances, for the May 2015 and June 2015 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 3.13, Mitchell Environmental Costs for the June 2015 through October 2015 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 for each of the following operating and maintenance costs listed on Form 3.13:

- a. Line 14 Monthly Disposal (5010000)
- b. Line 15 Monthly Urea Expense (5020002)
- c. Line 16 Monthly Trona Expense (5020003)
- d. Line 17 Monthly Lime Stone Expense (5020004)
- e. Line 18 Monthly Polymer Expense (5020005)
- f. Line 19 Monthly Lime Hydrate Expense (5020007)
- g. Line 20 Monthly WV Air Emission Fee
- h. Line 26 Monthly FGD Maintenance Expense
- i. Line 27 Monthly Non-FGD Maintenance Expense

6. Refer to ES Form 3.20, Rockport Environmental Costs for the June 2015 through October 2015 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 for each of the following operating and maintenance costs listed on Form 3.20:

- a. Line 10 Monthly Brominated Sodium Bicarbonate (5020028)
- b. Line 11 Monthly Activated Carbon (5020008)

- c. Line 12 Monthly IN Air Emission Fee
- d. Line 15 Monthly Maintenance Expense

7. Reference ES Forms 3.11, 3.11A and 3.11B 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 for May and June 2015 and ES Form 3.13 for the months of June through October 2015.

b. Provide an explanation and the reasons for the fluctuations in the monthly average cost of allowances determined in 5.a.

8. Provide the 12-month average residential customer's monthly usage as of October 31, 2015. 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. If the response to Item 1 to this request 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.

10. Refer to the Monthly Environmental Surcharge Reports filed July 21, 2015, and August 20, 2015, for the expense months of June and July 2015. Provide an

explanation of how Kentucky Power accomplished the proration of the billing factor for both months using both the previous Tariff ES and the current Tariff ES. Include any relevant documentation to support the environmental surcharge factor reflected on customer's bills.

11. Refer to the revised Monthly Environmental Surcharge Report filed August 10, 2015, for the expense month of June 2015.

a. Provide a detailed explanation for the reduction in Accumulated Depreciation for Non-FGD Costs from \$158,530,597 to \$76,575,377.

b. Provide a detailed explanation for the increase in Accumulated Deferred Income Tax for Non-FGD Costs from \$35,742,722 to \$37,928,854.

c. Provide a detailed explanation for the decrease in Accumulated Deferred Income Tax for FGD Costs from \$26,155,265 to \$25,000,877.

12. Refer to the Monthly Environmental Surcharge Reports filed October 19, 2015, and November 20, 2015, for the expense months of September and October 2015, Form ES 3.32. Line 13, Non-Residential Retail Revenues, appears to be misstated by the amount of line 12, Less All Other Classifications PPA Revenues. Confirm the misstatement and provide corrected calculations.

*Amy J Elliott
Kentucky Power Company
101 A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

*Kentucky Power Company
101 A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

*Judy K Rosquist
Kentucky Power Company
101 A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

*Kenneth J Gish, Jr.
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KENTUCKY 40507

*Honorable Mark R Overstreet
Attorney at Law
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634