

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE)	
APPLICATION OF THE FUEL ADJUSTMENT)	CASE NO.
CLAUSE OF KENTUCKY POWER COMPANY)	2016-00230
FROM NOVEMBER 1, 2015 THROUGH APRIL)	
30, 2016		

COMMISSION STAFF'S THIRD 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 and six copies in paper medium and an electronic version of the following information. The information requested herein is due within seven days of the date of this request. 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. When filing a paper containing personal information, Kentucky Power shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Kentucky Power's response to the Commission Staff's Second Request for Information ("Staff's Second Request"), Item 2.a.

a. Confirm that Kentucky Power understands that Administrative Regulation 807 KAR 5:056 contains specific instructions related to the recovery of fuel costs during forced outages and that those instructions are contained in Section 1(3)(a) and (b) and in Section 1(4). If this cannot be confirmed, explain why Kentucky Power believes other sections of the regulation apply to forced outage situations.

b. Because American Electric Power (n/k/a Kentucky Power) was unique in that it did not own a combustion turbine, in 2002 it was granted authority to use the "Peaking Unit Equivalent" approach to calculate the level of non-economy

purchase power costs to recover through the fuel adjustment clause (“FAC”).¹ Page 3 of that Order stated as follows:

Our interpretation of Administrative Regulation 807 KAR 5:056, as set forth in our Order of May 2, 2002, permits AEP to recover a lesser portion of the cost of purchased power than other utilities that operate higher cost gas-fired peaking generators. This result could occur even if the supplier and source of supply are the same. This anomaly requires us to consider the use of AEP’s proposed proxy mechanism. Based upon our review of the record and being otherwise sufficiently advised, we find that AEP’s proposed Peaking Unit Equivalent approach to calculate the level of non-economy purchased power costs to flow through its FAC is reasonable and should be approved.

(1) Assuming that all jurisdictional electric utilities calculate the amount to be excluded from recovery through the FAC in forced outage situations by recovering the lesser of the assigned cost of the unit forced out of service or the substitute cost of the replacement power without consideration of the highest-cost unit (unless the highest-cost unit happens to be the unit forced out of service), explain how Kentucky Power would be harmed compared to other jurisdictional utilities if it were not allowed to use the Peaking Unit Equivalent in its forced outage calculation.

(2) Explain how Kentucky Power does not have an advantage over the other electric jurisdictional utilities because it uses the Peaking Unit Equivalent in its forced outage calculation.

¹ 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 Oct. 3, 2002). The Peaking Unit Equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

2. Refer to Kentucky Power's response to the Staff's Second Request, Item 2.b.(1).

a. For the outage discussed in the response, confirm that Mitchell unit 2 had cleared the market to operate in that hour.

b. Confirm that, had Mitchell unit 2 not suffered a forced outage, the dispatched amount of power would have been 803 megawatts ("MW") (408 MW plus 395 MW of Mitchell unit 2 capacity). If this cannot be confirmed, explain.

c. The last paragraph on page 4 of 6 states that, [t]he Company also confirms that 385 MW (Column 3) were purchased to make up the difference, of which 287 MW (Column 9) were purchased to satisfy internal demand due to the forced outage." Explain why only 287 MW were considered as being purchased to satisfy internal demand due to forced outage when the Mitchell unit forced out was 395 MW and 385 MW was purchased to make up the difference.

d. State the use of the remaining 98 MW (385 MW purchased minus 287 MW).

3. Refer to Kentucky Power's response to the Staff's Second Request, Item 2.b.(2).

a. Confirm that, based on Kentucky Power's calculation of the \$456.55 to be excluded from recovery through the FAC, Kentucky Power compared the substitute cost of generation (\$/MWh) to the higher of the generation cost of the unit forced out (\$/MWh) versus the peaking unit equivalent (\$/MWh) and then excluded the difference between the two \$/MWh numbers multiplied by the MW (i.e., rather than including the replacement purchase power cost for recovery through the FAC, Kentucky

Power included fuel costs based on the higher of the peaking unit equivalent versus the generation cost of the unit forced out).

b. Confirm that the \$456.55 referenced in the response was recovered through Kentucky Power's Purchase Power Adjustment ("PPA") tariff. If this cannot be confirmed, explain why it was not recovered through the PPA tariff.

c. Supposing that Kentucky Power had used the methodology requested by Commission Staff for the response and had calculated an excluded amount of \$1,326.17, confirm that it would have recovered that amount through Kentucky Power's PPA tariff. If this cannot be confirmed, explain why it would not be recovered through the PPA tariff.

4. Confirm that all fuel costs related to forced outages that are excluded for recovery through the FAC are recovered through Kentucky Power's PPA tariff. If this cannot be confirmed, explain why they would not be recovered through the PPA tariff.



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DATED OCT 17 2016

cc: Parties of Record

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