COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

Pursuant to 807 KAR 5:056, the Commission established this case on August 12, 2016, to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the six-month period that ended on April 30, 2016. As part of this review, Kentucky Power responded to three requests for information and the Commission held a formal hearing in this matter on November 9, 2016. As directed by the Commission at the hearing, an informal conference was held on November 16, 2016, to discuss Kentucky Power's use of the peaking unit equivalent in its forced outage calculation.[1] On November 23, 2016, Kentucky Power filed comments on the informal conference memorandum and responses to data requests made at the hearing.

[1] Because Kentucky Power does not own a natural gas combustion turbine, in Case No. 2000-00495-B, *An Examination of the Application of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC Oct. 3, 2002), the Commission granted Kentucky Power authority to use a "Peaking Unit Equivalent" approach to calculate the level of non-economy purchase power costs to recover through the FAC. The Peaking Unit Equivalent was based on the operating characteristics of a General Electric simple-cycle gas turbine.

The Commission has previously established Kentucky Power's base fuel cost as 27.25 mills per kWh.[2] A review of Kentucky Power's monthly FAC filings shows that the fuel cost billed for the six-month period under review ranged from a low of 24.19 mills in November 2015 to a high of 27.07 mills in March 2016, with a six-month average of 25.65 mills.

Forced Outage Calculation

Section 1(3)(a) and (b) and Section 1(4) of Administrative Regulation 807 KAR 5:056 explains how the amount of fuel costs recoverable through the FAC in forced outage situations is calculated.[3] Per this regulation, recovery of fuel costs through the FAC during a forced outage is limited to the lesser of the assigned cost of power (the cost of fuel that would have been used in plants suffering a forced outage) and the substitute cost of power (the replacement power, whether it be generation from a different generating unit or purchased power). Kentucky Power has been using the "difference between the cost of its highest cost generation unit (including the hypothetical peaking unit equivalent) and the purchase power cost multiplied by the MW associated with the forced outage to calculate the amount to be excluded from recovery through the FAC."[4]

In instances in which the peaking unit equivalent is greater than the generation cost of the unit forced out, Kentucky Power is recovering more through the FAC than it would if the peaking unit equivalent was not used in the calculation. Kentucky Power

[2] Case No. 2014-00450, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2012 Through October 31, 2014* (Ky. PSC Aug. 11, 2015).

[3] The regulation pertains to forced outages lasting for a continuous period in excess of six hours.

[4] Kentucky Power's response to Commission Staff's Third Request for Information, Item 3.a.

states that it believes that its methodology was required by the Commission's May 2, 2002, and October 3, 2002 Orders in Case No. 2000-00495-B.[5] However, the language in those orders was meant to address "non-economy power purchases" in general and not forced outages situations. The FAC regulation has specific instructions that must be followed for forced outage situations. Kentucky Power should immediately begin limiting the recovery of fuel costs through the FAC during a forced outage to the lesser of the assigned cost of power and the substitute cost of power and cease utilizing the peaking unit equivalent in its calculation.

While Kentucky Power has been incorrectly calculating the amount recoverable through the FAC in forced outage situations, the Commission takes note that, for the review period, refunds to customers are not necessary. This is because fuel costs not recovered through the FAC in forced outage situations are recovered through Kentucky Power's Purchase Power Adjustment Tariff ("PPA"). Consequently, even though fuel cost recovery through the FAC was higher than it should have been, it was offset by lower cost recovery through the PPA.[6] Therefore, customers were not harmed.

Kentucky Power stated in response to the post-hearing data request that it began using the peaking unit equivalent in its forced outage calculation in May 2015.[7]

[5] 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, and Oct. 3, 2002).

[6] A total of $182,834.54 was recovered through the FAC that would have been recovered through the PPA. *See* Kentucky Power's response to Commission Staff's Second Request for Information, Item 2.b.(3), and Kentucky Power's response to Commission's Staff's Third Request for Information, Item 4.

[7] Kentucky Power's response to Commission Staff's Post-Hearing Request for Information ("Post-Hearing Request"), Item 5.

Because the PPA Tariff began with the July 2015 expense month,[8] the only months of the two-year review period (November 1, 2014, through October 31, 2016) during which the PPA was not in use for which customers have not been made whole were May 2015 and June 2015. In response to another post-hearing data request, Kentucky Power addressed this issue, stating that it proposed to refund the total for those two months, $32,673.62, in the first FAC filing following the Commission's final Order in this case.[9] The Commission appreciates Kentucky Power's proposal to refund for those months that fall outside of the six-month review period but fall within the two-year period, and finds that its proposal should be approved.

Substitute Cost of Power During Forced Outage

The Commission became aware during the processing of the six-month review cases for the jurisdictional generators that it may not be clear to the utilities what power costs should be used in determining the substitute cost of power during a forced outage. The substitute cost of power should reflect the cost of the power that replaced the unit forced out of service. For example, if power was purchased to replace the lost generation, then the cost of the power purchases is the substitute cost. If the utility increased its own generation to substitute for the lost generation, then the cost of the generation is the substitute cost. If power was purchased and the utility generated additional power from other units to replace the lost generation, then the substitute cost is equal to the total of the power purchases and the fuel costs of the additional generation.

[8] November 9, 2016 hearing at 12:15:05.

[9] Kentucky Power's response to Post-Hearing Request, Item 6.

The Commission also became aware that some utilities are calculating the substitute generation costs using the average cost of all other units operating during the forced outage period, rather than using the cost of a specific unit or units. The Commission finds this methodology to be acceptable when it is problematic and overly burdensome to determine the specific unit(s) affected by a forced outage and the extent to which each unit is affected.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds no evidence of improper calculation or application of Kentucky Power's FAC charges or improper fuel procurement practices outside of those discussed in this Order related to the calculation of fuel cost recovery during instances of forced outages.

IT IS THEREFORE ORDERED that:

1. The charges and credits billed by Kentucky Power through its FAC unrelated to its forced outage calculation for the period November 1, 2015, through April 30, 2016, are approved. The charges and credits billed by Kentucky Power through its FAC related to forced outage situations were based on an incorrect methodology; however, no refunds shall be required because customers were unharmed during the period November 1, 2015, through April 30, 2016, as discussed in this Order.

2. Kentucky Power's proposal to refund $32,673.62 to customers in the first FAC filing following the date of this Order is approved.

3. Kentucky Power shall immediately begin limiting the recovery of fuel costs through the FAC during a forced outage to the lesser of the assigned cost of power and

the substitute cost of power and cease utilizing the peaking unit equivalent in its calculation.

By the Commission

ENTERED

JAN 11 2017

KENTUCKY PUBLIC
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