

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC	)	
SERVICE COMMISSION OF THE ENVIRONMENTAL	)	CASE NO.
SURCHARGE MECHANISM OF KENTUCKY	)	2018-00307
POWER COMPANY FOR THE SIX-MONTH	)	
BILLING PERIOD ENDING JUNE 30, 2018	)	

ORDER

On September 20, 2018, the Commission initiated a six-month review of Kentucky Power Company's (Kentucky Power) environmental surcharge as billed to customers for the six-month period January 1, 2018, to June 30, 2018.<sup>1</sup> Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge, disallow any surcharge amounts that are not just and reasonable, and reconcile past surcharge collections with actual costs recoverable.

The Commission issued a procedural schedule on September 20, 2018, that provided for discovery, the filing of prepared testimony, and intervenor testimony. Kentucky Power filed prepared testimony, and responded to one request for information from Commission Staff. No parties sought to intervene in this proceeding. On November 29, 2018, Kentucky Power filed a motion that this case be submitted for decision by the Commission based on the existing record without a public hearing.

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<sup>1</sup> Kentucky Power's surcharge is billed on a two-month lag; therefore, the amounts billed from January 2018 through June 2018 are based on costs incurred from November 2017 through April 2018.

## SURCHARGE ADJUSTMENT

Kentucky Power did not propose any additional over- or under-recovery for the review period.<sup>2</sup> Having reviewed the record, the Commission finds that Kentucky Power's determination that it did not have any additional over- or under-recovery for the review period is reasonable.

Kentucky Power states that the average residential customer's monthly usage for this review period was 1,281-kilowatt hours.<sup>3</sup> Because Kentucky Power determined it did not have any over- or under-recovery for the review period, there will be no additional impact on an average residential customer's bill.<sup>4</sup>

## RATE OF RETURN

In previous environmental surcharge reviews, the Commission has been guided by its findings in Case No. 1996-00489<sup>5</sup> with respect to the determination of the weighted average cost of capital (WACC) to be used prospectively in Kentucky Power's monthly environmental surcharge filings. However, the final Order in Case No. 2017-00179<sup>6</sup> (Final Order) now supersedes the findings in Case No. 1996-00489. The Final Order authorized

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<sup>2</sup> Kentucky Power's Response to Commission Staff's First Request for Information, Item 1.

<sup>3</sup> *Id.*, Item 6.

<sup>4</sup> *Id.*

<sup>5</sup> 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 Combustion Waste and By-Products* (Ky. PSC Aug. 18, 1997).

<sup>6</sup> Case No. 2017-00179, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief* (Ky. PSC Jan. 18, 2018).

a return on common equity of 9.70 percent for environmental surcharge purposes.<sup>7</sup> It also specified that Kentucky Power utilizes a WACC of 6.44 percent and a Gross Revenue Conversion Factor (GRCF) of 1.352116, which would remain constant until changed by the Commission in Kentucky Power's next base rate case.<sup>8</sup> Therefore, the Commission finds that the combination of these components, which produces an overall grossed-up rate of return of 7.88 percent, should be used in all monthly environmental surcharge filings subsequent to the date of this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to submit this case for a decision on the existing evidence of record without a hearing is granted.
2. Kentucky Power's determination that it had no additional over- or under-recovery for the review period is approved.
3. Kentucky Power shall use a weighted average cost of capital of 6.44 percent, a tax gross-up factor of 1.352116, a return on equity rate of 9.70 percent, and an overall grossed-up rate of return of 7.88 percent in all monthly environmental surcharge filings subsequent to the date of this Order.
4. The environmental surcharge amounts determined by Kentucky Power for the review period January 1, 2018, to June 30, 2018, are just and reasonable.
5. This case is closed and removed from the Commission's docket.

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<sup>7</sup> *Id.*, Final Order at 27.

<sup>8</sup> *Id.*

By the Commission

ENTERED  
JAN 16 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

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