

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ELECTRONIC TARIFF FILING OF KENTUCKY |) | CASE NO. |
| POWER COMPANY TO UPDATE ITS PURCHASE |) | 2023-00318 |
| POWER ADJUSTMENT RATES |) | |

ORDER

On August 15, 2023, Kentucky Power Company (Kentucky Power) filed a tariff to revise its rates for Tariff Purchase Power Adjustment (Tariff P.P.A.) along with the Decommissioning Rider (Tariff D.R.) with a proposed effective date of September 28, 2023. By Order issued September 27, 2023, the Commission allowed the Tariff D.R. rates to go into effect on September 28, 2023, but suspended the effective date of the Tariff P.P.A. rates for one day and established a procedural schedule.¹ The Commission's Order authorized Kentucky Power's proposed Tariff P.P.A. rates be placed in effect on and after September 29, 2023, subject to refund, if Kentucky Power provided written notice to the Commission of its intention to do so as required by KRS 278.190(2).² On September 29, 2023, Kentucky Power filed a notice of its intent to place proposed rates into effect.

On October 3, 2023, the Office of the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention, (Attorney General) and Kentucky Industrial Utility Customers, Inc. (KIUC) filed motions to intervene and both

¹ Order (Ky. PSC Sept. 27, 2023) at 3 and Appendix.

² Order (Ky. PSC Sept. 27, 2023) at 3.

parties were granted intervention. The Attorney General and KIUC filed testimony and issued requests for information jointly.

On October 6, 2023, Kentucky Power filed a motion for an informal conference. Kentucky Power stated that the purpose of the request was to discuss aspects of the Tariff P.P.A. filing and to discuss any other matters which may aid Commission Staff.³ An informal conference was scheduled for October 13, 2023.⁴ A memorandum was filed into the record on October 26, 2023, stating that representatives of Kentucky Power presented information related to the Tariff P.P.A. over/under recovery.⁵

Kentucky Power responded to one request for information from Commission Staff.⁶ Kentucky Power also responded to one request for information from KIUC and the Attorney General, jointly.⁷ The Attorney General and KIUC filed joint testimony of Randy Futral on November 2, 2023. Kentucky Power elected to not file any rebuttal testimony.⁸ All parties requested that the matter be submitted to the Commission on the record.⁹ The matter now stands submitted to the Commission for a decision.

³ Kentucky Power's Motion for an Informal Conference (filed Oct. 6, 2023).

⁴ Commission Staff's Notice of Informal Conference (filed Oct. 10, 2023).

⁵ Inter-Agency Memorandum dated Oct. 13, 2023 (filed Oct. 26, 2023).

⁶ Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 26, 2023).

⁷ Kentucky Power's Response to the Attorney General/KIUC's First Request for Information (Attorney General/KIUC's First Request) (filed Oct. 26, 2023).

⁸ Kentucky Power's Notice Not to File Rebuttal Testimony and Request to Submit the Matter on the Record (filed Dec.4, 2023).

⁹ Kentucky Power's Notice Not to File Rebuttal Testimony and Request to Submit the Matter on the Record (filed Dec.4, 2023); the Attorney General/KIUC's Joint Recommendation to Submit the Matter on the Record (filed Dec. 5, 2023).

LEGAL STANDARD

KRS 278.030 provides that a utility may collect fair, just and reasonable rates and that the service it provides must be adequate, efficient and reasonable.

BACKGROUND

Kentucky Power annually files updated rates for its Tariff P.P.A. and Tariff D.R. (formerly known as the Big Sandy Retirement Rider). In the instant case, both tariffs were based on the 12 months ended June 30, 2023.

In Case No. 2017-00179, Kentucky Power was authorized to recover the Rockport Deferral Regulatory Asset over five years starting in December of 2022, as long as the Rockport Unit Power Agreement (UPA) was not renewed.¹⁰ Kentucky Power was also required to reflect the Rockport Fixed Cost Savings in the Tariff P.P.A. after the termination of the Rockport UPA.¹¹ For 2023 only, Kentucky Power was authorized to offset the Rockport Fixed Cost Savings with the amount necessary to achieve its authorized return on equity (ROE) for 2023 (Rockport Offset).¹² The Rockport UPA was terminated on December 8, 2022. In Case No. 2022-00283, Kentucky Power estimated the Rockport Offset, provided the Rockport Fixed Cost Savings, and proposed a

¹⁰ Case No. 2017-00179, *Electronic 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; (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) Order at 39-40.

¹¹ Case No. 2017-00179, Jan. 18, 2018 Order, Appendix A at 6.

¹² Case No. 2017-00179, Jan. 18, 2028 Order, Appendix A at 6.

procedure for crediting customers for the Rockport Fixed Cost Savings from December 8, 2022, through December 31, 2022.¹³

In Case No. 2023-00159, Kentucky Power requested that its cumulative under-recover regulatory asset for Tariff P.P.A., through May 2023, be part of the regulatory assets for which it sought securitization. Approval to seek securitization was granted.¹⁴

Tariff P.P.A.

Kentucky Power proposed two phases for the Tariff P.P.A. rates, October 2023 through January 14, 2024 and January 15, 2024 through the date of approval of its new base rates in Case No. 2023-00159.¹⁵ The new base rates and charges were approved for service rendered on and after January 16, 2024.¹⁶ The proposed Tariff P.P.A. rates reflect Kentucky Power's proposed treatment of the Rockport Fixed Cost Savings for the stub period of December 6, 2022 through December 31, 2022 submitted in Case No. 2022-00283. The proposed treatment is to include the pro rate portion of the Rockport Fixed Cost Savings in the Phase 1 rates.¹⁷ To appropriately account for the full credit when using annual billing determinants, Kentucky Power annualized the credit amount. Kentucky Power also proposed an estimated Rockport Offset Amount of \$22.79 million, as approved in Case No. 2022-00283, which will be trued-up in Case No. 2024-00016.¹⁸

¹³ Case No. 2022-00283, *Electronic Investigation of Kentucky Power Company Rockport Deferral Mechanism* (Ky. PSC Dec. 28, 2022).

¹⁴ Case No. 2023-00159, Jan. 10, 2024 Order.

¹⁵ Case No. 2023-00159, Jan 10, 2024 Order at 99-103.

¹⁶ Case No. 2023-00159, Jan. 10, 2024 Order at 99-103.

¹⁷ Kentucky Power's Response to Commission Staff's First Request for Information, Item 1.

¹⁸ Case No. 2024-00016, *Electronic Application of Kentucky Power Company for: (1) Approval of the Rockport Offset True-Up Amount; (2) Approval to Collect the Rockport Offset True-Up Through Tariff Purchase Power Adjustment; and (3) All Other Required Approvals and Relief* (filed Jan. 31, 2024).

In the cover letter for this tariff filing, Kentucky Power stated that it updated the Tariff P.P.A. rate calculation to “better capture actual costs incurred and to be collected in order to reflect a more accurate over/under collection or credit going forward” and to reflect its proposals in Case No. 2023-00159, its then ongoing rate case, regarding securitization of the Tariff P.P.A. under-recovery.¹⁹ The changes to the over/under recovery compare the expenses in excess of the base rate amount and revenues from the Tariff P.P.A. rider for the 12-month period ending June 30, 2023, while the over/under recovery previously compared the prior year’s revenue requirement and Tariff P.P.A. revenues. Kentucky Power also proposed to exclude the under/over recovery from the Tariff P.P.A. because it requested securitization of this item in Case No. 2023-00159.²⁰ In Case No. 2023-00159, Kentucky Power also requested to cease Tariff P.P.A. recovery of the PJM LSE OATT expenses in excess of base rates, when new base rates are set; the proposed Tariff P.P.A. rates include \$30 million in incremental expenses.

ATTORNEY GENERAL/KIUC COMMENTS

The Attorney General/KIUC’s witness, Randy Futral, recommended that the Commission approve Kentucky Power’s treatment of the Rockport Fixed Cost Savings for the period December 8, 2022, through December 31, 2022.²¹ The Attorney General/KIUC argued that Kentucky Power’s proposal is consistent with the Orders in

¹⁹ Kentucky Power’s Cover Letter at 1-2.

²⁰ Kentucky Power’s Cover Letter at 2.

²¹ Direct Testimony of Randy Futral (Futral Direct Testimony) at 5.

Case No. 2017-00179 and Case No. 2022-00283 and appropriately credits the stub period.²²

The Attorney General/KIUC also recommended accepting Kentucky Power's revised under/over recovery because the current mechanism only trues-up the difference between estimated revenues and actual revenues but does not true-up the difference in estimated and actual expenses.²³ However, Tariff P.P.A. is calculated on historical expenses, so there is no true-up for expenses because they are finalized before the filing is made.

FINDINGS

The Commission finds that the proposed treatment of the Rockport Fixed Cost Savings for the stub period should be accepted. Kentucky Power's proposal will appropriately credit the stub period over the Phase 1 rates.

The Commission also finds that the change to the over/under recovery calculation should be denied. The Commission does not agree with this change as it compares the wrong periods for the calculation. Kentucky Power stated that the change was necessary because currently the under-recovery grows every month, however that is the expected result of declining billing determinants and inclining expenses. Further, Kentucky Power is referring to the regulatory asset balance for the under-recovery, which is never truly settled due to the use of historical billing determinants that are consistently lower each year. Kentucky Power calculates the regulatory asset balance by comparing the current year's revenues, which are based on the previous year's expenses, to the current year's

²² Futral Direct Testimony at 6.

²³ Futral Direct Testimony at 5.

expenses. The Commission finds that Kentucky Power should use forecasted billing determinants to calculate the Tariff P.P.A. rates on a going forward basis. The Commission also finds that Kentucky Power should write off the portion of the over/under recovery from the previous year that will not be recovered through Tariff P.P.A. when Kentucky Power makes its annual filing. These changes together should lessen the total under-recovery and prevent the regulatory asset from growing each year in a way that is not recovered through the Tariff P.P.A. Because Kentucky Power included the 2023 under-recovery in the regulatory asset to be securitized, with the exception of June 2023, and does not propose an under-recovery in this filing, no changes are required to the proposed Tariff P.P.A. rates at this time.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Kentucky Power are approved as fair, just and reasonable for Kentucky Power, and these rates and charges are approved for service rendered on and after September 29, 2023.

2. Kentucky Power's proposal to revise its over/under recovery mechanism for Tariff P.P.A. is denied.

3. Kentucky Power shall use forecasted revenues to calculate the Tariff P.P.A. rates in subsequent filings.

4. From the date of its next effective Tariff P.P.A. rates, Kentucky Power shall write off any remaining Tariff P.P.A. under/over recovery that will not be recovered through the Tariff P.P.A. rates.


5. Within 20 days of the date of service of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, new

tariff sheets setting forth the rate and charge approved by this Order and its effective date, and also stating that the rate and charge were authorized by this Order.

6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ENTERED
JUN 14 2024 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

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