

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--|---|------------|
| ELECTRONIC APPLICATION OF KENTUCKY |) | |
| POWER COMPANY FOR: (1) APPROVAL OF THE |) | |
| ROCKPORT OFFSET TRUE-UP AMOUNT; (2) |) | CASE NO. |
| APPROVAL TO COLLECT THE ROCKPORT |) | 2024-00016 |
| OFFSET TRUE-UP THROUGH TARIFF |) | |
| PURCHASE POWER ADJUSTMENT; AND (3) ALL |) | |
| OTHER REQUIRED APPROVALS AND RELIEF |) | |

ORDER

On January 31, 2024,¹ Kentucky Power Company (Kentucky Power) filed an application requesting an Order for: (1) approving the calculation of the Actual Rockport Offset and Rockport Offset True-Up; (2) approving the collection of the Rockport Offset True-Up through Tariff Purchase Power Adjustment (Tariff P.P.A.); and (3) granting all other required approvals and relief.

On February 12, 2024, the Commission established a procedural schedule in order to assist in the processing of this matter.² On February 15, 2024, the Commission granted intervention to the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General).³ On February 23, 2024, the Commission granted intervention to Kentucky Industrial Utility Customers, Inc. (KIUC).⁴

¹ Application (filed Jan. 31, 2024).

² Order (Ky. PSC Feb. 12, 2024).

³ Order (Ky. PSC Feb. 15, 2024).

⁴ Order (Ky. PSC Feb. 23, 2024).

Kentucky Power responded to one request for information from Commission Staff.⁵ In addition, Kentucky Power filed a statement that it would not issue any requests for information or provide rebuttal testimony, and requested the Commission make a decision on the record.⁶ The intervenors provided notice that neither party requested a hearing and asked that the Commission decide the case on the record.⁷

On August 16, 2024, Kentucky Power filed notice to implement rates and a request to collect the Rockport Offset True-Up over approximately 19 months instead of 12 months.⁸ Kentucky Power requested that the company be allowed to collect the Rockport Offset True-Up from March 2024 through September 2025, subject to refund, pending a final Order. The case now stands submitted for a decision.

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. KRS 278.180 grants the Commission authority, for good cause shown, to shorten the required 30-day notice of rate changes to a period not less than 20 days.

BACKGROUND

In its 2017 base rate proceeding, Kentucky Power entered into a settlement agreement (2017 Settlement Agreement) that was approved by the Commission in its

⁵ Kentucky Power's Response to Commission Staff's First Request for Information (filed Mar. 4, 2024).

⁶ Kentucky Power's Notice that It Would Not File Requests for Information or Rebuttal Testimony and a Request to Submit the Case on the Record (filed Apr. 3, 2024).

⁷ KIUC's Notice Regarding Hearing (filed Apr. 24, 2024); Attorney General's Notice Regarding Hearing (filed Apr. 23, 2024).

⁸ Kentucky Power's Notice to Implement Rates (filed Aug. 16, 2024).

January 18, 2018 Order.⁹ According to the application in this case, the \$50.8 million expected annual reduction in expenses following the expiration of the Rockport Unit Power Agreement (Rockport UPA) allowed the parties to the 2017 Settlement Agreement to: (a) defer through the creation of a regulatory asset \$50 million in Rockport UPA expenses Kentucky Power otherwise would have been entitled to collect during the period January 18, 2018, through December 8, 2022 (Rockport Deferral Regulatory Asset); and (b) flow back to customers beginning December 9, 2022, through Tariff P.P.A., the \$40.8 million of Rockport UPA non-fuel, non-environmental expense being recovered through base rates without the necessity of a base rate case (Rockport Fixed Cost Savings).¹⁰ Kentucky Power was entitled to credit that portion of the Rockport Fixed Cost Savings required to permit it to earn, on a per-books basis, its Commission-authorized return on equity (ROE) for 2023 only (Rockport Offset), and to begin to amortize the Rockport Deferral Regulatory Asset beginning December 9, 2022.¹¹ The 2017 Settlement Agreement capped the amount of the Rockport Offset to not exceed the amount of the Rockport Fixed Cost Savings included in base rates (approximately \$40.8 million).¹²

⁹ 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 June 28, 2018).

¹⁰ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 4–8.

¹¹ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 6.

¹² Application, Exhibit BKW-1 (2017 Settlement Agreement) at 7.

The 2017 Settlement Agreement defined Estimated Rockport Offset, Actual Rockport Offset, and Rockport Offset True-Up as follows:

“Estimated Rockport Offset” shall mean the amount of additional annual revenue the Company estimates would be necessary for it to earn the Commission authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings.¹³

“Actual Rockport Offset” shall mean the amount of additional annual revenue that would have been necessary for the Company to earn the Commission-authorized return on equity for 2023 considering the termination of the Rockport UPA and the Rockport Fixed Cost Savings. The Company shall calculate the Actual Rockport Offset using a comparison of the per books return on equity for 2023 to the Commission-approved return on equity. The Actual Rockport Offset cannot exceed the Rockport Fixed Costs Savings.¹⁴

“Rockport Offset True-Up” shall mean the difference between the Estimated Rockport Offset and the Actual Rockport Offset.¹⁵

The 2017 Settlement Agreement required Kentucky Power to file, by November 15, 2022, updated rates for its Tariff P.P.A. to reflect the Rockport Fixed Cost Savings, the Estimated Rockport Offset and the Rockport Deferral Regulatory Asset.¹⁶

Because the approximate amounts of the Rockport Fixed Cost Savings and Rockport Deferral Regulatory Asset were known, and Kentucky Power’s actual 2023 ROE could not be known until 2024, an estimated amount of the Rockport Offset was collected

¹³ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 6–7.

¹⁴ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 7.

¹⁵ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 7.

¹⁶ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 7.

through Tariff P.P.A. over the course of 2023.¹⁷ The 2017 Settlement Agreement further required Kentucky Power to file, by February 1, 2024, updated rates for Tariff P.P.A. to be effective March 1, 2024, reflecting the collection of the Rockport Offset True-Up.¹⁸ Kentucky Power filed an application to update the Tariff P.P.A. rates on September 20, 2023.¹⁹ Under the 2017 Settlement Agreement, Tariff P.P.A. rates were to be designed to recover or credit the Rockport Offset True-Up over the course of three months.²⁰

In its December 8, 2022 final Order in the investigation into the Rockport Deferral Mechanism, the Commission approved the amortization of the total Rockport Deferral Regulatory Asset over five years using a weighted average cost of capital (WACC), updated for base rate cases.²¹ The Commission found that the amount of the Rockport Fixed Cost Savings included in base rates equaled \$40,831,141, and that amount was to be returned to customers through Tariff P.P.A. beginning December 9, 2022.²² The Commission also found that the Estimated Rockport Offset equaled \$22,785,645.²³ The

¹⁷ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 7.

¹⁸ Application, Exhibit BKW-1 (2017 Settlement Agreement) at 8.

¹⁹ Case No. 2023-00318, *Electronic Tariff Filing of Kentucky Power Company to Update Its Purchase Power Adjustment Rates* (filed Aug. 15, 2023), (The case was originally closed June 14, 2024 but Kentucky Power filed for and was granted rehearing and the case is presently open.). Kentucky Power has filed its subsequent Tariff P.P.A. case on Aug. 15, 2024. Case No. 2024-00289, *Electronic Tariff Filing of Kentucky Power Company to Update Its Purchase Power Adjustment Rates* (filed Aug. 15, 2024).

²⁰ Case No. 2022-00283, *Electronic Investigation of Kentucky Power Company Rockport Deferral Mechanism* (Ky. PSC Dec. 8, 2022), final Order.

²¹ Case No. 2022-00283, Dec. 8, 2022 final Order.

²² Case No. 2022-00283, Dec. 8, 2022 final Order at 13.

²³ Case No. 2022-00283, Dec. 8, 2022 final Order at 13–15.

Commission approved the recovery of the Estimated Rockport Offset through Tariff P.P.A. over the course of calendar year 2023.²⁴ Finally, the Commission stated that

[t]he true-up will be determined in 2024, when Kentucky Power's 2023 net income and adjustments are known. As part of the true-up, the Commission may choose to exclude from Kentucky Power's 2023 net income any expenses that are unreasonable, unjust, unfair, disallowed for rate recovery by statute, regulation or Commission precedent, or which are related to the sale to Liberty [Utilities]. It is also likely that during the 2024 true-up the Commission will have the benefit of the record from an expected rate case ending on or near the beginning of 2024. Additionally, the Commission finds that the recovery period for the Rockport Offset true-up will be determined based on the magnitude of the over- or under recovery. There exists a possibility that the amount of the Rockport Offset under recovered is greater than the amount recovered over the 12 months of 2023. It would seem patently unjust to require a greater amount to be recovered over three months in 2024 as a true-up to a lesser amount recovered over a time period four times longer during 2023.²⁵

Because the Actual Rockport Offset cannot exceed the amount of the Rockport Fixed Cost Savings in base rates, the total remaining amount of the Rockport Fixed Cost Savings possible to be collected as part of the Rockport Offset True-Up is \$18,045,496.²⁶

Kentucky Power's Tariff P.P.A. is updated annually and billed from October through September. On August 15, 2024, Kentucky Power filed a tariff, along with supporting documentation, to update its Tariff P.P.A. rates. Kentucky Power proposed an effective date of September 27, 2024. On September 26, 2024, the Commission

²⁴ Case No. 2022-00283, Dec. 8, 2022 final Order at 15.

²⁵ Case No. 2022-00283, Dec. 8, 2022 final Order at 15.

²⁶ Application at 6, (\$40,831,141 - \$22,785,645 = \$18,045,496).

suspended Kentucky Power's proposed Tariff P.P.A. rates for one day, to September 28, 2024, and Kentucky Power filed notice to place the rates into effect subject to refund.

FINDINGS AND DISCUSSION

Kentucky Power's audited financial statements for 2023 and the resulting Rockport Offset True-Up were filed in the record on February 28, 2024. Because the calculated Actual Rockport Offset exceeded the maximum possible amount of \$40,831,141, the Rockport Offset True-Up will be \$18,045,496, the maximum amount allowed. Kentucky Power requested that the Rockport Offset True-Up be recovered through September 2025 instead of the original 12-month period of March 2024 through March 2025 to reduce the burden on its customers.

The Commission finds that the proposed treatment of the Rockport Offset True-Up should be approved. Spreading the recovery over a longer period will reduce the Tariff P.P.A. rate and the burden on ratepayers.

The Commission finds that Kentucky Power should refund its customers the actual amount each customer overpaid based on the actual usage of each customer during the timeframe that the utility was charging the higher rate. The Commission finds that the refund should be done by issuing a single bill credit, where feasible.

IT IS THEREFORE ORDERED that:

1. The Tariff P.P.A. rates proposed by Kentucky Power are denied.
2. The Tariff P.P.A. rates, as set forth in the Appendix to this Order, are approved as fair, just and reasonable rates for Kentucky Power, and these rates are approved for service rendered from March 2, 2024, to September 27, 2024.

3. Kentucky Power shall refund its customers for the actual overcharge for rates for service rendered between March 2, 2024, and September 27, 2024.

4. Kentucky Power shall provide a single bill credit, when feasible, for the amount.

5. Kentucky Power shall provide notice to the Commission, in this case, once the refund to all entitled customers has been accomplished.

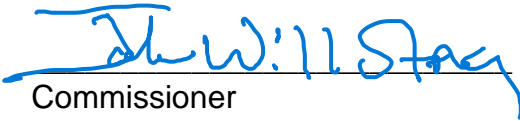
6. Within 20 days of the date of service of this Order, Kentucky Power shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order and effective from March 2, 2024, to September 27, 2024.

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

PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ATTEST:



Executive Director

ENTERED
NOV 27 2024 AH
KENTUCKY PUBLIC
SERVICE COMMISSION

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2024-00016 DATED NOV 27 2024

The following Tariff P.P.A. rates are prescribed for the customers served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

| | <u>\$/kW Rate</u> | <u>\$/kWh rate</u> |
|--------------|-------------------|--------------------|
| RES | - | \$0.00433 |
| GS (SGS/MGS) | - | \$0.00352 |
| LGS | \$0.96 | \$0.00013 |
| LGS LMTOD | - | \$0.00323 |
| IGS | \$1.26 | \$0.00012 |
| MW | - | \$0.00242 |
| OL | - | \$0.00061 |
| SL | - | \$0.00057 |

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