

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION BY THE PUBLIC	)	
SERVICE COMMISSION OF THE	)	
ENVIRONMENTAL SURCHARGE MECHANISM	)	CASE NO.
OF KENTUCKY POWER COMPANY FOR THE	)	2025-00036
SIX-MONTH BILLING PERIODS ENDING	)	
DECEMBER 31, 2023, JUNE 30, 2024, AND	)	
DECEMBER 31, 2024	)	

ORDER

On March 5, 2025, the Commission initiated the six-month review of Kentucky Power Company's (Kentucky Power) environmental surcharge as billed to customers for the six-month billing periods ended December 31, 2023, June 30, 2024, and December 31, 2024.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review the past operations of the environmental surcharge at six-month intervals. In reviewing the surcharge, the Commission may disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharge collections with actual costs recoverable.

The March 5, 2025 Order included a procedural schedule that provided for discovery, the filing of prepared testimony, and intervenor testimony. Kentucky Power filed prepared testimony and responded to two requests for information from Commission Staff. There were no intervention requests in this proceeding. On May 13, 2025, Kentucky Power filed a motion that this case be submitted for decision by the Commission

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<sup>1</sup> Kentucky Power's surcharge is billed on a two-month lag. Thus, surcharge billings ending December 31, 2023, June 30, 2024, and December 31, 2024, are based on costs incurred ending October 31, 2023, April 30, 2024, and October 31, 2024.

based on the existing record. This case is submitted based on the evidence of record without a hearing and is ready for a decision.

### SURCHARGE ADJUSTMENT

Kentucky Power's environmental surcharge calculation includes a monthly true-up of the over- or under-recovery of the month which occurred two months prior. For example, the revenue requirement calculation for the billing month of September 2024 included the under recovery from the July 2024 expense month. Kentucky Power did not propose any additional over- or under-recovery for the six-month billing periods ended December 31, 2023, June 30, 2024, and December 31, 2024.<sup>2</sup>

There are two issues that raised the Commission's concern in the monthly filings. First, the discrepancy between the revenue requirement of \$1,220,437 from the July 2024 expense month and the amount to be collected of \$1,515,692 used in the under-recovery calculation of the September 2024 filing.<sup>3</sup> Kentucky Power stated that the difference in these numbers is the inclusion of the \$295,255 under-recovery approved in August 2024 in Case No. 2023-00372.<sup>4</sup> Second, the Depreciation and Accretion Expense was included in Non-FGD Costs but excluded from Total Costs for the month of October 2024. Kentucky Power explained that the error was only in the presentation of the amount, not

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<sup>2</sup> Kentucky Power's Response to Commission Staff's First Request for Information (filed Mar. 28, 2025), Item 5.

<sup>3</sup> Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed May 2, 2025), Item 1.

<sup>4</sup> Kentucky Power's Response to Staff's Second Request for Information, Item 1. Case No. 2023-00372, *An Electronic Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Periods Ending December 31, 2019, June 30, 2020, December 31, 2020, December 31, 2021, June 30, 2022, and December 31, 2022, and the Two-Year Billing Periods Ending June 30, 2021, and June 30, 2023* (Ky. PSC Aug. 6, 2024), Order at 9.

the calculation, and that Kentucky Power has corrected the issue going forward as of the environmental surcharge filed for the March 2025 expense month.<sup>5</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. The issues raised by the Commission were adequately addressed by Kentucky Power.

### RATE OF RETURN

In previous environmental surcharge reviews, the Commission has been guided by its findings in Case No. 2017-00179<sup>6</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 January 19, 2024, Order in Case No. 2023-00159<sup>7</sup> (Final Order) supersedes the findings in Case No. 2017-00179. The Final Order in Case No. 2023-00159 authorized a return on common equity of 9.65 percent for environmental surcharge purposes.<sup>8</sup> Kentucky Power stated that going forward it would

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<sup>5</sup> Kentucky Power's Response to Staff's Second Request for Information, Item 2.

<sup>6</sup> 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 27 and 65.

<sup>7</sup> Case No. 2023-00159, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; and (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) A Securitization Financing Order; and (5) An Order Granting All Other Required Approvals and Relief* (Ky. PSC Jan. 19, 2024).

<sup>8</sup> Case No. 2023-00159, Jan. 19, 2024 final Order at 7.

utilize a WACC of 6.79 percent<sup>9</sup> and a Gross Revenue Conversion Factor (GRCF) of 1.339896, to be applied to the return on equity, which would remain constant until changed by the Commission in Kentucky Power's next base rate case.<sup>10</sup> Therefore, the Commission finds that the rates used are reasonable and that the combination of these components, which produces an overall grossed-up rate of return of 8.16 percent,<sup>11</sup> 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 determination that it had no additional over- or under-recovery for the six-month billing periods ended December 31, 2023, June 30, 2024, and December 31, 2024, is approved.

2. Kentucky Power shall use a weighted average cost of capital of 6.79 percent, a tax gross-up factor of 1.339896, a return on equity rate of 9.65 percent,

<sup>9</sup> See Kentucky Power's ES Form 3.20 (filed Nov. 18, 2024).

	Ratios	Cost Rate	Weighted Cost Rate
Long-term Debt	52.62%	4.91%	2.58%
Short Term Debt	6.14%	3.73%	0.23%
Common Equity	41.24%	9.65%	3.98%
	100.00%		6.79%

<sup>10</sup> Direct Testimony of John Cullop (filed Mar. 28, 2025) at 8.

<sup>11</sup> See Kentucky Power's ES Form 3.20.

	Ratios	Cost Rate	Weighted Cost Rate	GRCF	Weighted Average Cost
Long-term Debt	52.62%	4.91%	2.58%	1.005523	2.59%
Short Term Debt	6.14%	3.73%	0.23%	1.005523	0.23%
Common Equity	41.24%	9.65%	3.98%	1.339896	5.33%
	100.00%		6.79%		8.16%

and an overall grossed-up return of 8.16 percent in all monthly environmental surcharge filings subsequent to the date of this Order.

3. The environmental surcharge amounts determined by Kentucky Power for the six-month billing periods ended December 31, 2023, June 30, 2024, and December 31, 2024, are just and reasonable.


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

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PUBLIC SERVICE COMMISSION

  
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Vice Chairman

  
Commissioner

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