

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

July 12, 2007

IN RE:

**KINGSPORT POWER COMPANY TARIFF TO
IMPLEMENT ITS FUEL COST ADJUSTMENT
EFFECTIVE JUNE 1, 2006 (TARIFF 2006-0215)**

**DOCKET NO.
06-00145**

ORDER APPROVING WAIVER

This matter came before Chairman Ron Jones, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on May 30, 2006 for consideration of the Tariff modifications filed by Kingsport Power Company, d/b/a/ AEP Appalachian Power ("KPC" or "Company"), on May 11, 2006. In the filing, KPC requested waiver of Authority Rule 1220-4-1-.04, which requires thirty (30) days notice to the Authority prior to implementing rate increases such as those proposed in Tariff No. 2006-0215 filed by the Company.

BACKGROUND

KPC is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"). KPC has no generation facilities of its own and purchases all its power from Appalachian Power Company ("APC") through tariffs approved by the Federal Energy Regulatory Commission ("FERC").¹ The KPC tariffs contain a fuel clause which states,

When the unit cost of fuel in the charges for power purchased from Appalachian Power Company under Federal Energy Regulatory Commission rate schedule No. 23 is above or below a base unit price of 15.8563 mills per KWH, adjusted for losses, the bill for service shall be increased or decreased respectively at a rate per KWH equal to the amount that such cost of fuel is above or below the unit base cost of

¹ *In Re: Petition of Kingsport Power Company to Change and Increase Certain Tariffs, Rates and Charges for Electric Service*, Docket No. 90-05735, Order, pp. 1-2 (December 27, 1990).

15.8563 mills per KWH, adjusted for losses, applied to the KWH measured in the period for which the bill is rendered. The adjustment shall be based on the most recent calendar month for which fuel cost data is available.²

The APC wholesale tariff for KPC also contains a fuel adjustment clause. APC's wholesale tariff defines KPC's fuel costs and the calculation methodology which forms the basis for the monthly adjustments.³ Adjustments made through the fuel clause, which can increase or decrease rates, pass through only the changes in KPC's fuel costs and do not generate additional profits for KPC.

Typically, KPC makes monthly fuel adjustments and sends the Authority a copy of the current adjustment with supporting calculations. The fuel cost adjustment rate has historically gone into effect automatically without any action by the TRA. Because the fuel clause adjustment effectively changes consumers' rates, on February 23, 2006 the Authority sent KPC a letter informing the Company that, going forward, the tariffs must be filed to reflect the new rate. On May 11, 2006, KPC filed the current fuel adjustment with an effective date of June 1, 2006 and requested a waiver of the thirty (30) day notice requirement.⁴

FINDINGS

The Authority has well established rules regarding tariff changes. Specifically, Authority Rule 1220-4-1-.03(1) states, "Tariffs must explicitly state the rates and charges for each class of service rendered, designating the area or district to which they apply."⁵ The Authority informed KPC that its fuel cost adjustment tariff filings must contain a tariff sheet listing the fuel adjustment and the total energy rate for each class in order to comply with TRA rules. Kingsport has agreed to make these changes to its monthly filings. Authority Rule 1220-4-1-.04 states,

² Kingsport Power Company d/b/a American Electric Power T.R.A. Tariff Number 1, 1st Revised Sheet Number 3 (March 24, 1997). The fuel clause is included in the tariff for each class of service.

³ *Rate Increase Kingsport (Opinion No. 423 Issued 6/29/98)*, FERC Docket ER92-324, *Supplement 23 to FERC Electric Rate Schedule 23 of Appalachian Power Co. Rate Schedule FERC 23-service to Kingsport Power Co. under ER92-324*, pp. 4-5 (May 5, 1999). APC's wholesale tariffs are subject to FERC jurisdiction.

⁴ KPC requested a fuel cost adjustment of -0.13708 cents/kWh to become effective June 1, 2006.

⁵ Authority Rule 1220-4-1-.03(1).

Except as hereinafter provided all tariffs, rate schedules or supplements thereto containing any change in rates, tolls, charges or rules and regulations must be filed with the Authority at least thirty (30) days before the effective date of such changes, unless upon application and for good cause shown the Authority may waive the thirty day time limit or any portion thereof.⁶

KPC's tariff requires that the Company base the adjustment on the most recent calendar month for which fuel cost data is available. Typically, there is a one month lag in the fuel cost used for the adjustment. For example, October fuel costs are used to calculate the fuel adjustment that goes into effect in December. The data for the most recent month is not always available in time for KPC to file the fuel cost adjustment thirty (30) days prior to the effective date for all billing cycles. The need to keep KPC's fuel cost pass-through as current as possible together with the time limitations on when data becomes available constitutes good cause for waiving the thirty (30) day notice.

At the November 22, 2004 Authority Conference, the Directors recognized the need to expedite the implementation of Purchase Gas Adjustment ("PGA") charges and delegated to the Chair the authority to waive the thirty (30) day notice for PGA filings.⁷ The fuel cost adjustment ensures proper cost recovery and is standard in the electric industry. The fuel clause in KPC's tariffs serves a purpose similar to that of the PGA used by gas distribution companies. In order for KPC to comply with its tariffs and use data from the most recent month, KPC may not always be able to comply with the thirty (30) day notice requirement. This situation can constitute good cause under Authority Rule 1220-4-1-.04 permitting the Authority to waive the thirty (30) day notice requirement.

At the May 30, 2006 Authority Conference, the panel found that KPC, with the exception of the notice requirement to the Authority, had complied with the provisions of Authority Rule 1220-4-


⁶ Authority Rule 1220-4-1-.04. See also, Authority Rule 1220-4-1-.06(4), which also provides for a thirty (30) day filing requirement and a waiver of that requirement for good cause shown.

⁷ Transcript of Authority Conference, pp. 14-16 (November 22, 2004). See Authority Rule 1220-4-7-.02(3), which specifically recognizes "that in many instances the Company receives less than thirty (30) days notice from its suppliers and that other conditions may exist which prevent the Company from providing thirty (30) days advance notice."

1-.03. The panel voted unanimously to waive the thirty (30) day filing requirement pursuant to Authority Rule 1220-4-1-.04 for Kingsport Power Company's June fuel adjustment tariff filing. In addition, the panel found that in order to ensure the applications for such waivers are addressed efficiently, the Authority should delegate to the Chair the responsibility of approving waivers of the thirty (30) day notice requirement for future Kingsport Power Company fuel cost adjustment tariff filings.

IT IS THEREFORE ORDERED THAT:

1. The thirty (30) day filing requirement set forth in Authority Rule 1220-4-1-.04 for Kingsport Power Company's June fuel adjustment tariff filing is waived for good cause shown.
2. The responsibility of approving a waiver of the thirty (30) day notice requirement in Authority Rule 1220-4-1-.04 for future Kingsport Power Company fuel cost adjustment tariff filings is delegated to the Chair of the Authority.



Ron Jones, Chairman



Pat Miller, Director



Sara Kyle, Director