

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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JUN 01 2012

PUBLIC SERVICE
COMMISSION

In The Matter Of:

The Application Of Kentucky Power)
Company To Withdraw Its Tariff RTP)
Pending Submission By The Company) Case No. _____
And Approval By The Commission Of)
A New Real-Time Pricing Tariff.)

APPLICATION

Kentucky Power Company respectfully moves the Public Service Commission of Kentucky pursuant to KRS 278.180 and 807 KAR 5:011 to withdraw its experimental Tariff RTP. Kentucky Power also requests that the Commission find that good cause exists and that the notice period be shortened so that Tariff RTP is withdrawn effective June 28, 2012, which is the first day of the Company's July, 2012 billing period. In support of its motion Kentucky Power states:

Party

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919. A certified copy of Kentucky Power's Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149¹ as Exhibit 1. The post office address of Kentucky Power is 101A Enterprise Drive, P.O. 5190, Frankfort, Kentucky 40602-5190. Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. Kentucky Power serves approximately 173,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter,

¹ In the Matter of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger, P.S.C. Case No. 99-149.

Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010.

Tariff RTP

2. Since June 1, 2008, Kentucky Power has offered service under its experimental real-time pricing tariff: Tariff RTP (Tariff Sheets 30-1, 30-2, 30-3, and 30-4). To date, no customer has taken service under Tariff RTP.

3. Tariff RTP was approved by Order of the Commission dated February 1, 2008 as a three-year pilot program.² As part of the settlement of the Company's 2009 base rate case, the pilot program was extended until June 29, 2013.³

4. Tariff RTP was intended to provide Kentucky Power customers "the opportunity to manage their electric costs by shifting load periods."⁴ As the Commission explained in its Order approving the tariff, the tariff structure was designed to provide an incentive for those industrial and commercial customers who can shift their load to do so:

This profile, according to Kentucky Power, may benefit participants since the demand charge is much lower under the proposed tariff even though the energy charges are significantly higher and that more savings could result if a customer lowers its overall demand. For high load factor customers, it may not be beneficial to participate. They are using power evenly throughout the time period and thus are less likely to be able to shift their usage pattern to put more usage off-peak. Lower load factor customers, on the other hand, may benefit if they can modify their usage pattern to reduce their peak load or move load to off-peak time periods

² Order, *In the Matter of: The Application Of Kentucky Power Company For An Order Approving A Pilot Real-Time Pricing Program For Large Commercial And Industrial Customers*, Case No, 2007-00166 at 1, 14 (Ky. P.S.C. February 1, 2008).

³ Order, *In The Matter Of: Application of Kentucky Power Company For General Adjustment Of Rates*, Case No. 2009-00459 at 6 (Ky. P.S.C. June 28, 2009).

⁴ Order, *In the Matter of: The Application Of Kentucky Power Company For An Order Approving A Pilot Real-Time Pricing Program For Large Commercial And Industrial Customers*, Case No, 2007-00166 at 3 (Ky. P.S.C. February 1, 2008).

which is the intent of the program. They also would generally have more of an opportunity to change their usage patterns, A participant's ability to react to real-time prices and obtain benefits from the pilot program is enhanced by the fact that unlike other utilities subject to the Commission's Order, Kentucky Power, through its parent AEP, is a member of PJM. As a result, the derivation of real-time prices charged to customers is transparent.⁵

Nothing in the Commission's order approving the tariff suggests the Commission intended that customers receive the benefits of Tariff RTP without either increasing their off-peak load or shifting their usage from on-peak to off-peak periods.

Recent Interest In Tariff RTP

5. Three large customers recently inquired about moving as much as 200 MW of load onto Tariff RTP. This stands in stark contract to the first four years of the tariff's existence during which there was no interest among the Company's customers in the tariff.

6. It is the Company's understanding from discussions with these customers that for the most part the customers intend to maintain their current usage patterns. That is, the customers indicated they are not intending to shift significant amounts of their existing load (or any increased load) to off-peak periods.

7. The Company understands from its discussions that the principal reason for the recent interest in the Company's Tariff RTP is the substantial decrease in rates that can be achieved, even in the absence of shifting load, as a result of the precipitous drop in capacity prices, coupled with expected low locational marginal prices (LMP) for energy, between now and the June 29, 2013 scheduled end of the experimental period.

8. For the 2012/2013 planning year, the PJM RPM Resource Auction price for capacity, which is used to establish the cost of capacity under Tariff RTP, is \$0.501 per kW-month or \$16.46 per MW-Day. This is approximately 3.8% of the Company's average

⁵ *Id.* at 10-11.

embedded capacity costs for eligible RTP customers of \$13.165 per KW-month. It is also less than 15% of capacity rate in the Company's current Tariff RTP of \$3.346 kW-Month or \$110.00 per MW-Day.

9. This drop in the capacity rate for the year 2012-2013 has made it economically advantageous for customers to take most, if not all, of their load under Tariff RTP without shifting that portion of their load to off-peak periods.

Bases For Request To Withdraw

10. The Company seeks to withdraw its current Tariff RTP for two reasons. First, the tariff has not achieved its objective of encouraging customers to manage their energy costs by shifting their load periods.

11. Second, the Company will incur substantial losses if the customers who have expressed interest in shifting their load to Tariff RTP were to do so. Based upon 2011 load data for the three customers who have inquired concerning the Tariff RTP, the Company could experience a revenue loss of approximately \$10 million to \$20 million during the period July 1, 2012 to June 30, 2013.⁶

⁶ The tariff is limited to ten customers.

New Real-Time Pricing Tariff

12. The Company recognizes its obligation under the Commission's Order in Case No. 2009-00459 to offer a Real-Time Pricing tariff through June 29, 2013. The Company also recognizes the interest of both the Commission and certain of its customers in the continued availability of a Real-Time Pricing tariff. To that end, the Company commits to file, on or before June 11, 2012, a new Real-Time Pricing Tariff.

13. Kentucky Power anticipates that if the Commission grants the Company's request to withdraw its Tariff RTP there may be a period between the time of the withdrawal of the current Tariff RTP and the Commission's action on the to be proposed Real-Time Pricing Tariff. Kentucky Power proposes that during any such interim any customer taking service under the Company's current Tariff RTP would revert to the tariff service which was being taken at the time Tariff RTP was elected, or such other tariff the customer chooses. If the Commission approves the new Real-Time Pricing Tariff, the Company proposes that customers be eligible to take service under the new tariff subject to its terms and conditions.

Testimony

14. The testimony of Ranie K. Wohnhas, Managing Director, Regulatory and Finance, Kentucky Power Company, is filed in support of this application.

Request To Shorten Notice Period Or In The Alternative To Suspend Operation Of Tariff

15. KRS 278.180(1) requires thirty days notice for any change to a tariff containing a rate. The statute also authorizes the Commission to shorten the notice period to no less than 20 days for good cause shown.

16. Cycle 1 of the Company's July, 2012 billing period begins June 28, 2012. Kentucky Power requests that the withdraw of Tariff RTP be effective June 28, 2012. The

reduction of customer confusion, as well as administrative convenience, resulting from making the withdraw effective the first day of the July, 2012 billing cycle constitutes good cause to shorten the notice period.

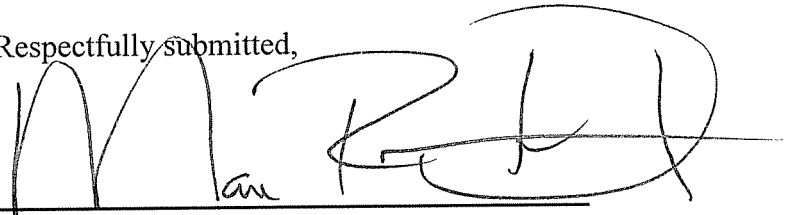
17. To avoid financial harm to the Company and its customers, Kentucky Power respectfully requests that the Commission enter an interim Order suspending Tariff RTP, or otherwise prohibiting any customers from taking service under Tariff RTP, if the Commission is unable to act on the Company's Application by June 27, 2012 (the latest date notification may be received for bills to be issued during Cycle 1 of the July, 2012 billing cycle), or otherwise elects not to permit Tariff RTP to be withdrawn prior to the effective date of the Company's to be filed real-time pricing tariff.

Wherefore, Kentucky Power Company respectfully requests the Commission enter an Order:

1. Authorizing Kentucky Power Company to withdraw its Tariff RTP effective June 27, 2012;
2. Suspending Tariff RTP, or otherwise prohibiting any customers from taking service under Tariff RTP, in the event the Commission is unable to act on the Company's Application by June 27, 2012, or otherwise elects not to permit Tariff RTP to be withdrawn prior to the effective date of the Company's to be filed real-time pricing tariff;
3. Granting Kentucky Power Company such further relief to which it may be entitled.

This 1st day of June, 2012.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', written over a horizontal line.

Mark R. Overstreet
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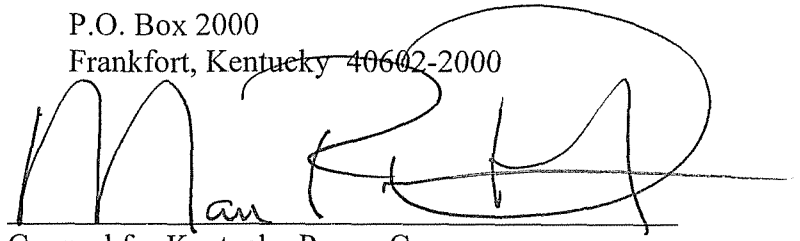
COUNSEL FOR KENTUCKY POWER
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing, along with a copy of the Testimony of Ranie K. Wohnhas, was served by First Class Mail upon the following parties of record, this 1st day of June, 2012.

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COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY POWER)	
COMPANY TO WITHDRAW ITS TARIFF RTP)	
PENDING SUBMISSION BY THE COMPANY)	CASE NO. 2012-_____
AND APPROVAL BY THE COMMISSION OF)	
A NEW REAL-TIME PRICING TARIFF.)	

DIRECT TESTIMONY
OF
RANIE K. WOHNHAS

June 1, 2012

DIRECT TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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PERSONAL BACKGROUND

Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A: My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and Finance, Kentucky Power Company (Kentucky Power, KPCo or Company). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I earned a Bachelor of Science degree with a major in accounting from Franklin University, Columbus, Ohio in December 1981. I began work with Columbus Southern Power in 1978 working in various customer services and accounting positions. In 1983, I transferred to Kentucky Power Company working in accounting, rates and customer services. I became the Billing and Collections Manager in 1995 overseeing all billing and collection activity for the Company. In 1998, I transferred to Appalachian Power Company working in rates. In 2001, I transferred to the AEP Service Corporation (AEPSC) working as a Senior Rate Consultant. In July 2004, I assumed the position of Manager, Business Operations Support with KPCo and was promoted to Director in April 2006. I was promoted to my current position as Managing Director, Regulatory and Finance effective September 1, 2010.

Q: WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR, REGULATORY AND FINANCE?

1 **A:** The purpose of my testimony is to support the immediate withdrawal of Kentucky
2 Power’s Tariff Sheets 30-1, 30-2, 30-3, and 30-4, Experimental Real-Time Pricing
3 (RTP) Tariff (“Tariff RTP” or “the tariff”). The continued application of this
4 experimental tariff will deny KPCo the ability to recover significant costs incurred in
5 providing service to the Company’s prospective RTP customers. The magnitude of
6 this under-recovery of costs will impose a considerable financial hardship on KPCo.

7 As stated in its Application, the Company commits to propose a replacement
8 RTP tariff in a filing that will be made on or before June 11, 2012. The proposed
9 tariff will offer to Quantity Power (Q.P.) and Commercial and Industrial Power-
10 Time-of-Day (C.I.P.-T.O.D.) customers currently eligible to take service under Tariff
11 RTP the ability to continue to experiment with real-time pricing, while at the same
12 time reducing the potential financial risks that have led to the Company’s request to
13 withdraw the current tariff.

14 **TARIFF RTP BACKGROUND**

15 **Q: WHAT IS TARIFF RTP?**

16 **A:** Tariff RTP is an experimental tariff that was filed pursuant to the Commission’s
17 Order in Case No. 2006-00045, and approved by Order in Case No. 2007-00166. In
18 Case No. 2006-00045 KPCo was directed to develop a voluntary pilot real-time
19 pricing program for its large commercial and industrial customers. In the settlement
20 of KPCo’s last base rate case, Case No. 2009-00459, the pilot was extended three
21 years and customers were allowed to enroll at any time during the year. Tariff RTP is
22 scheduled to expire on June 29, 2013. Over the approximate four years this tariff has
23 been available, no KPCo customer has chosen to enroll in the program.

1 **Q: WHAT IS THE TARIFF'S PURPOSE?**

2 **A:** Tariff RTP was intended to provide large commercial and industrial customers “the
3 opportunity to manage their electric costs by shifting load periods.”¹ Kentucky
4 Power’s Tariff RTP, which differed fundamentally from the real-time pricing tariffs
5 filed by other Kentucky jurisdictional electric utilities, did not employ a customer
6 baseline approach, and instead targeted lower load factor customers who could shift
7 their load to off-peak periods:

8 For high load factor customers, it may not be beneficial to participate.
9 They are using power evenly throughout the time period and thus are
10 less likely to be able to shift their usage pattern to put more usage off-
11 peak. Lower load factor customers, on the other hand, may benefit if
12 they can modify their usage pattern to reduce their peak load or move
13 load to off-peak time periods, which is the intent of the program. They
14 also would generally have more of an opportunity to change their
15 usage patterns. A participant's ability to react to real-time prices and
16 obtain benefits from the pilot program is enhanced by the fact that
17 unlike other utilities subject to the Commission's Order, Kentucky
18 Power, through its parent AEP, is a member of PJM. As a result, the
19 derivation of real-time prices charged to customers is transparent.²

20 Nothing in the Commission’s order approving the tariff suggests the Commission
21 intended that customers receive the benefits of Tariff RTP without either increasing
22 their off-peak load or shifting their usage from on-peak to off-peak periods.

23 **THE COMPANY’S EXPERIENCE WITH TARIFF RTP**

24 **Q: HAS TARIFF RTP MET THESE OBJECTIVES?**

25 **A:** No. Although the tariff has been in effect for almost four years, no customer has
26 taken service under the tariff.

¹ Order, *In the Matter of: The Application Of Kentucky Power Company For An Order Approving A Pilot Real-Time Pricing Program For Large Commercial And Industrial Customers*, Case No, 2007-00166 at 3 (Ky. P.S.C. February 1, 2008).

² *Id.* at 10-11.

1 **Q: HAS THIS LACK OF INTEREST RECENTLY CHANGED?**

2 **A:** Yes. The Company is currently in discussions with three customers requesting to
3 move up to 200 MW of load to Tariff RTP.

4 **Q: IS THIS RECENT INTEREST IN THE TARIFF EVIDENCE OF**
5 **CUSTOMERS RESPONDING TO REAL-TIME PRICES?**

6 **A:** No. Although the Company has not signed any contracts to provide service under
7 Tariff RTP, and thus discussions are on-going, it appears that little of the potential
8 load that has recently become interested in Tariff RTP will be shifted to off-peak
9 periods in response to real-time prices.

10 **PROPOSED WITHDRAWAL OF TARIFF RTP**

11 **Q: WHY IS THE COMPANY PROPOSING TO WITHDRAW ITS CURRENT**
12 **TARIFF RTP?**

13 **A:** The experimental Tariff RTP is intended to encourage customers to shift load to off-
14 peak periods. Such shifting of load and the resulting reduction of on-peak demand
15 would benefit all customers and the Company. The tariff, however, was not intended
16 to provide a discount to customers unless they changed usage patterns. Given current
17 conditions, which were not foreseen when the tariff was approved, customers will be
18 given a benefit without changing their usage patterns. The current tariff effectively
19 allows customers to choose between the lower of cost-based rates and market-based
20 rates, which was neither the Company's, nor the Commission's intent when the
21 experimental tariff was approved. Due to a large reduction in the PJM market price
22 for capacity for the 2012/2013 planning year, coupled with expected low locational
23 marginal prices (LMP) for energy between now and the June 29, 2013 scheduled end

1 of the experimental period, the availability of Tariff RTP will deny KPCo the ability
2 to recover a substantial portion of the costs incurred in providing service to Tariff
3 RTP customers. Recently, three large customers requested to move up to 200
4 megawatts of load onto Tariff RTP³. The magnitude of the expected under-recovery
5 of costs at this level of enrollment will impose an extreme and immediate financial
6 hardship on KPCo beginning as early as June 1, 2012, when customers could move
7 load onto Tariff RTP.

8 Based on analysis performed by the Company, customers can take advantage
9 of Tariff RTP and reduce their bills without responding to real-time price signals.
10 The vast majority of the load that is under consideration for a move from an existing
11 tariff to Tariff RTP comes from customers which operate at very high load factors, or
12 whose manufacturing processes do not allow for significant amounts of load to be
13 shifted to off-peak hours. This means the Company will lose revenues without any
14 corresponding reduction in cost or shifting of load.

15 **Q: PLEASE COMPARE TARIFF RTP'S CAPACITY CHARGE TO THE**
16 **COMPANY'S EMBEDDED CAPACITY COSTS.**

17 **A:** For the 2012/2013 planning year, based upon the methodology established in Tariff
18 RTP, the Capacity Charge would be \$0.501 / kW-month. The capacity charge is
19 based solely on PJM Interconnection, L.L.C (PJM) Reliability Pricing Model (RPM)
20 capacity auction clearing price, which is updated by PJM for each PJM planning year.

21 KPCo's embedded capacity cost to serve a QP or a CIP-TOD Tariff customer
22 averages \$13.615 / kW-month. This cost-based capacity charge is calculated, as
23 shown below in Table 1, using data directly from the most recently approved KPCo

1 KPCo's embedded capacity cost to serve a QP or a CIP-TOD Tariff customer
 2 averages \$13.615 / kW-month. This cost-based capacity charge is calculated, as
 3 shown below in Table 1, using data directly from the most recently approved KPCo
 4 Rate Case No. 2009-00459. A cost-based charge is necessary to compensate KPCo
 5 for the cost of capacity used to serve the Company's RTP customers without
 6 subsidization from KPCo's other customers.

7 A tariff that applies a PJM capacity rate that is approximately 3.7% (\$0.501
 8 divided by \$13.615) of the Company's embedded capacity costs for potential RTP
 9 customers does not provide a fair, just, and reasonable level of compensation to
 10 KPCo. That is particularly the case where, as is very likely here, the rates fail to
 11 produce any change in customer behavior.

12 **TABLE 1**

13 **CALCULATION OF COST BASED CAPACITY CHARGE FOR QP AND CIP-TOD**

	QP Sec	QP Pri	QP Sub	QP Trans	CIP-TOD Sub	CIP-TOD Trans	TOTAL
16 Production Capacity Cost (\$)	111,481	9,148,557	10,594,184	957,572	39,187,124	6,213,350	66,212,268
17 5 CP Demand (kW)	861	57,473	73,983	5,148	234,842	32,951	405,256
18 \$ / kW - Month	10.795	13.265	11.933	15.501	13.905	15.714	13.615

19 Data Source: KPCo Rate Case, Case No. 2009-00459

20 **IMPACT OF PROPOSAL**

21 **Q: IF THIS WITHDRAWAL IS NOT APPROVED, WHAT WILL BE THE**
 22 **IMPACT ON KPCO?**

1 **A:** The current Tariff RTP allows the Company to recover only a small portion of its
2 capacity costs. As shown in Table 1, KPCo’s embedded capacity cost for C.I.P-
3 T.O.D and Q-P. Tariff customers is above \$10 / kW-month. The Tariff RTP capacity
4 charge is currently \$3.346 / kW-month, and would drop to \$0.501 / kW-month.
5 Recovery of such costs is necessary to maintain the financial strength of the
6 Company.

7 The financial impact to KPCo increases with the number of enrolled
8 customers and amount of usage of those taking service under Tariff RTP. While
9 Tariff RTP limits participation to ten customers, three have already expressed interest
10 in enrolling. This financial burden to KPCo would be amplified if additional
11 customers participated in the experimental Tariff RTP. Unrecovered costs associated
12 with the continued operation of Tariff RTP will cause immediate financial harm to
13 KPCo.

14 **Q: DO YOU HAVE AN ESTIMATE OF THE FINANCIAL HARM?**

15 **A:** Yes. As previously stated, three of KPCo’s largest customers, with combined peak
16 demand of approximately 200 MW and annual revenues of approximately \$75
17 million, have expressed interest in placing nearly all their load on Tariff RTP. If this
18 load were to be placed on Tariff RTP, based on historical data and projected pricing
19 the revenue loss could be as much as \$17.4 million during the next twelve-month
20 period, as shown in Table 2 on next page:

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TABLE 2

**2011 Load, 7/2012 - 6/2013 Forecasted LMPs,
Updated RTP Charges (\$ Millions)**

All Load Standard Tariff	\$	76.8
Load to RTP *	\$	<u>59.4</u>
Lost Revenue From RTP	\$	17.4

* Two customers shift their entire load to Tariff RTP and one customer shifts all but 7.5 MW.

Q: HOW SIGNIFICANT IS THIS POTENTIAL REVENUE LOSS TO KPCO?

A: A reduction of \$17.4 million (3.2%) of retail sales revenue would reduce KPCo's ROE by approximately 2.3% from its April, 2012 level of 8.9%. The additional revenue loss from other customers switching to Tariff RTP will further erode ROE and increase the significant financial impact on KPCo.

Q: IF THE COMMISSION APPROVES THE WITHDRAWAL WHAT OPTIONS WILL BE AVAILABLE TO ANY CUSTOMERS TAKING SERVICE UNDER TARIFF RTP AT THE TIME OF WITHDRAWAL?

A: Any RTP customers may return to an existing standard Tariff or enroll in the updated Tariff RTP when it becomes available.

Q: WHY IS THE COMPANY FILING TO WITHDRAW THE CURRENT TARIFF RTP PRIOR TO FILING ITS NEW TARIFF RTP?

A: The Company is withdrawing the current tariff prior to filing its new tariff to limit the revenue loss the Company might sustain while the new Tariff RTP is being prepared, reviewed, and approved.

1 **Q: DOES THE COMPANY INTEND TO FILE A NEW TARIFF RTP?**

2 **A:** Yes. The Company is preparing a new Tariff RTP that will avoid the problems that
3 have arisen under the current version of the tariff. The Company anticipates filing the
4 new Tariff RTP on or before June 11, 2012.

5 **Q: DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

6 **A:** Yes it does.

