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October 5, 2012

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RECEIVED

OCT 05 2012

**PUBLIC SERVICE
COMMISSION**

Mark R. Overstreet
(502) 209-1219
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moverstreet@stites.com

RE: Case No. 2012-00226

Dear Mr. Derouen:

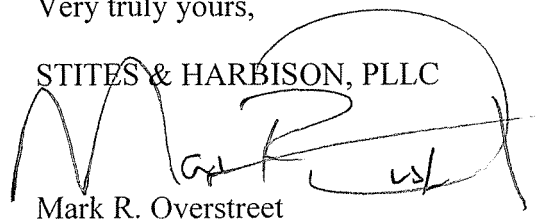
Enclosed please find and accept for filing the original and ten copies of the rebuttal testimony of Ranie K. Wohnhas and David M. Roush. Also enclosed is the Company's petition for confidential treatment.

By copy of this letter I am serving the testimony and motion on counsel for Kentucky Industrial Utility Customers, Inc. and the Attorney General.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

STITES & HARBISON, PLLC



Mark R. Overstreet

MRO

cc: Michael L. Kurtz (By Overnight Delivery)
Dennis G. Howard II (Public Information Only)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

The Application of Kentucky Power)
Company to Withdraw Its Tariff RTP)
Pending Submission by the Company) Case No. 2012-00226
And Approval by the Commission of)
a New Real-Time Pricing Tariff)

OCT 05 2012
PUBLIC SERVICE
COMMISSION

* * * * *

PETITION FOR CONFIDENTIAL TREATMENT

Kentucky Power Company (“Kentucky Power”) moves the Commission pursuant to 807 KAR 5:001, Section 7, for an Order granting confidential treatment to Exhibits one through ten of the Rebuttal Testimony of Ranie K Wohnhas.

Pursuant to 807 KAR 5:001, a highlighted original of the exhibits containing confidential information is filed with this petition. Ten redacted copies of the exhibits also are being filed.

A. Mr. Wohnhas’ Testimony And Exhibits And The Statutory Standards.

Mr. Wohnhas’ exhibits detail customer-specific information concerning purchases of electricity from Kentucky Power by ten customers during July and August 2011 and 2012.

Kentucky Power does not object to providing to the Commission the confidential information. However, the information should be afforded confidential treatment.

KRS 61.878(1)(c)(1) excludes from the Open Records Act:

Upon and after July 15, 1992, records confidentially disclosed to an agency or required to be disclosed to it, generally recognized as confidential or proprietary, which if openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records.

This exception applies to those portions of Mr. Wohnhas' exhibits for which confidential treatment is sought.

B. The Nature of Kentucky Power's Injury that Will Result from Disclosure of the Confidential Information.

The information for which confidential treatment is being sought involves the energy usage and cost for industrial entities in competitive markets such as petroleum refining, energy production and transport, steel production, and chemical manufacture. Energy costs can represent a substantial portion of the cost of these customers' products. Such information is considered confidential information by Kentucky Power, its customers, and, Kentucky Power believes, the industries involved. Disclosure of the exhibits will place the energy costs of the industrial customers in the public domain and thereby place the customers at a commercial disadvantage. This threat could have the effect of discouraging these and other industrial and commercial customers from locating or expanding in Kentucky Power's service territory.

C. The Information Is Generally Recognized As Confidential and Proprietary.

First, the information contained in the exhibits to Mr. Wohnhas' testimony are "generally recognized as confidential or proprietary." The exhibits detail sensitive information that is treated as confidential by Kentucky Power and its customers. Dissemination of the information for which confidential treatment is being requested is restricted by Kentucky Power and AEPSC. The Company and AEPSC take all reasonable measures to prevent its disclosure to the public as well as persons within the Company who do not have a need for the information. It is Kentucky Power's understanding that the information is similarly restricted by the affected customers.

D. Disclosure Of The Information Will Result In An Unfair Commercial Disadvantage for Kentucky Power.

In general, the disclosure of the confidential information will place Kentucky Power at an unfair commercial disadvantage. Energy costs represent a significant component of the costs of operation for many of Kentucky Power's large industrial customers. These customers require Kentucky Power to maintain this information as confidential, presumably because public dissemination would place them at a commercial disadvantage vis-à-vis their competitors. If this information is required to be disclosed publicly then industrial customers will be less likely to locate or expand in Kentucky Power's service territory. The impaired ability to attract such customers will place Kentucky Power at a competitive disadvantage as compared to electric utilities not subject to this disclosure requirement.

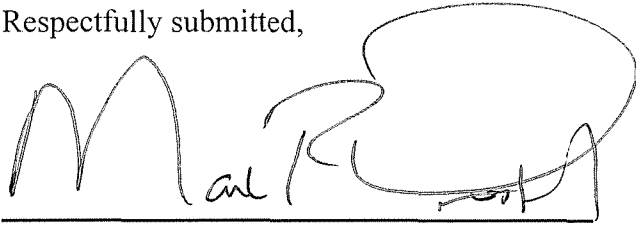
E. The Information Is Required To Be Disclosed To An Agency.

The records requested in KIUC 1-1 are by the terms of the request required to be disclosed to the Commission, a "public agency" as that term is defined at KRS 61.870(1).

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

1. According confidential status to and withholding from public inspection those portions of Exhibits one through ten of Mr. Wohnhas' testimony for which confidential treatment is sought; and
2. Granting Kentucky Power all further relief to which it may be entitled.

Respectfully submitted,



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R. Benjamin Crittenden
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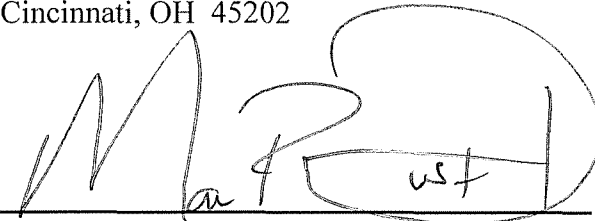
COUNSEL FOR KENTUCKY POWER
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing (along with redacted copies of the information for which confidential treatment is sought) was served by first class mail, postage prepaid, upon the following parties of record, this 5th day of October, 2012.

Jennifer B. Hans
Dennis Howard II
Lawrence W. Cook
Assistant Attorneys General
Office for Rate Intervention
P. O. Box 2000
Frankfort, KY 40602-2000

Michael L. Kurtz
Kurt J. Boehm
Boehm, Kurtz & Lowry
Suite 1510
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Mark R. Overstreet

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

OCT 05 2012

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF

APPLICATION OF KENTUCKY POWER COMPANY)
TO WITHDRAW ITS TARIFF RTP PENDING)
SUBMISSION BY THE COMPANY AND APPROVAL) CASE NO. 2012-00226
BY THE COMMISSION OF A NEW REAL-TIME)
PRICING TARIFF)

REBUTTAL TESTIMONY OF
DAVID M. ROUSH AND RANIE K. WOHNHAS
ON BEHALF OF KENTUCKY POWER COMPANY

October 5, 2012

VERIFICATION

The undersigned, David M. Roush, being duly sworn, deposes and says he is the Director Regulated Pricing and Analysis, that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge and belief

David M. Roush

David M. Roush

STATE OF OHIO)

)

) Case No. 2012-00226

COUNTY OF FRANKLIN)

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by David M. Roush, this the 3rd day of October 2012.

Cheryl L. Strawser

Notary Public



Cheryl L. Strawser
Notary Public, State of Ohio
My Commission Expires 10-01-2016

My Commission Expires: October 1, 2016

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY POWER)
COMPANY FOR APPROVAL OF AN)
EXPERIMENTAL RTP RIDER) CASE NO. 2012-00226

REBUTTAL TESTIMONY
OF
DAVID M. ROUSH

October 5, 2012

**REBUTTAL TESTIMONY OF
DAVID M. ROUSH, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

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I. PERSONAL BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David M. Roush. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the American Electric Power Service Corporation (AEPSC) as Director–Regulated Pricing and Analysis. AEPSC supplies engineering, financing, accounting, and planning and advisory services to the eleven electric operating companies of the American Electric Power System (AEP), one of which is Kentucky Power Company (Kentucky Power, KPCo or Company).

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS EXPERIENCE.

A. I graduated from The Ohio State University (OSU) in 1989 with a Bachelor of Science degree in mathematics and a computer and information science minor. In 1999, I earned a Master of Business Administration degree from The University of Dayton. I have completed both the EEI Electric Rate Fundamentals and Advanced Courses. In 2003, I completed the AEP/OSU Strategic Leadership Program. In 1989, I joined AEPSC as a Rate Assistant. Since that time I have progressed through

1 various positions and was promoted to my current position of Director-Regulated
2 Pricing and Analysis in June 2010.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR-REGULATED**
4 **PRICING AND ANALYSIS?**

5 A. My responsibilities include the oversight of the preparation of cost of service and rate
6 design analysis for the AEP System operating companies, and oversight of the
7 preparation of special contracts and pricing for customers.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
9 **COMMISSIONS?**

10 A. Yes. I have submitted testimony before the Public Service Commission of Kentucky,
11 Indiana Utility Regulatory Commission, Michigan Public Service Commission, the
12 Public Service Commission of West Virginia and the Public Utilities Commission of
13 Ohio. With respect to the Public Service Commission of Kentucky, I have testified in
14 a number of cases, including Case No. 2006-00045 which considered the
15 requirements of the Federal Energy Policy Act of 2005 regarding time-based
16 metering, demand response, and interconnection service, and Case No. 2009-00459
17 which extended the Company's voluntary real-time pricing program ("RTP", Tariff
18 RTP) for an additional three years through June 2013.

19 **Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS CASE?**

20 A. No, I did not.

21 **II. PURPOSE OF TESTIMONY**

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my rebuttal testimony is to respond to the testimony of Kentucky
2 Industrial Utility Customers, Inc. (KIUC) witness Baron in Case No. 2012-00226
3 concerning Tariff RTP's capacity charge, the tariff's objective, and the
4 implementation period as a result of the settlement in Case No. 2009-00459.

5 **III. EXHIBITS**

6 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

7 A. No.

8 **IV. REBUTTAL TESTIMONY**

9 **Q. WHAT WAS YOUR INVOLVEMENT IN THE DEVELOPMENT AND**
10 **IMPLEMENTATION OF TARIFF RTP?**

11 A. In Case No. 2006-00045 I provided testimony to present the Company's position and
12 provide information to the Commission to assist in its consideration of the
13 requirements of the Energy Policy Act of 2005 (EPAAct 2005), Subtitle E Section
14 1252, Smart Metering which entails time-based metering and demand response. In
15 that case the Commission directed the jurisdictional utilities to develop voluntary
16 real-time pricing programs for the large commercial and industrial customers.

17 In Case No. 2007-00166 the Company submitted an application to implement
18 a voluntary real-time pricing pilot program, Tariff RTP. That case defined the terms
19 and conditions of Tariff RTP. The Commission then approved the proposed pilot
20 RTP program. While I was not a witness in this case, the terms and conditions of
21 Tariff RTP were developed under my direction and I am familiar with both them and
22 the Company's intent.

23 In Case No. 2009-00459, which extended Tariff RTP for an additional three

1 years through June 2013, I provided testimony to support the design of the rates for
2 each tariff. I also supported the KPCo team that negotiated the settlement agreement
3 which established the current implementation period for Tariff RTP.

4 **Q. IN DEVELOPING TARIFF RTP, WAS IT THE COMPANY'S INTENT THAT**
5 **PARTICIPANTS IN THIS TARIFF SHIFT LOAD?**

6 A. Yes. This tariff was developed with the intent that the tariff would allow and
7 encourage large commercial and industrial customers to shift their load to take
8 advantage of Tariff RTP.

9 **Q. AT PAGE 10 HIS TESTIMONY MR. BARON STATES THAT PROVIDING**
10 **CUSTOMERS THE "ABILITY TO EXPERIMENT IN THE WHOLESALE**
11 **ELECTRICITY MARKET BY DESIGNATING A PORTION OF THE**
12 **CUSTOMER'S LOAD ... SUBJECT TO REAL-TIME PRICES" WAS AN**
13 **"OBJECTIVE [OF TARIFF RTP] DISTINCT FROM MERELY**
14 **ENCOURAGING CUSTOMERS TO ENGAGE IN LOAD-SHIFTING." IS**
15 **THAT ACCURATE?**

16 A. Far from it. It was never Kentucky Power's intent that customers take service under
17 Tariff RTP without also shifting some portion of their load in response to pricing
18 signals. This linkage between real-time pricing was made clear by me as early as my
19 testimony in Case No. 2006-00045 in which I noted, in discussing the low levels of
20 participation in the Company's existing time-based pricing and load management
21 programs, "most customers have decided that the economic rewards associated with
22 participating in the various time-based programs *do not outweigh the inconvenience*
23 *of cost associated with changing their usage characteristics.*" (Direct Testimony

1 and Exhibits of David M. Roush, *In the Matter of: Consideration Of The*
2 *Requirements For The Federal Energy Policy Act Of 2005 Regarding Time-Based*
3 *Metering, Demand Response And Interconnection Service*, 2006-00045 at 5 (Filed
4 May 18, 2006) (emphasis supplied).

5 Kentucky Power's understanding of this linkage was strengthened by its
6 reading of the Commission's December 21, 2006 Order directing Kentucky Power to
7 develop a voluntary real-time pricing tariff for its large commercial and industrial
8 customers:

9 The Commission believes that some of the large commercial and
10 industrial customers of the other [than Duke Kentucky] jurisdictional
11 utilities may benefit from real-time pricing tariffs because such
12 customers have greater operating flexibility and, therefore, greater
13 ability to modify their consumption patterns.
14

15 Order, *In the Matter of: Consideration Of The Requirements For The Federal*
16 *Energy Policy Act Of 2005 Regarding Time-Based Metering, Demand*
17 *Response And Interconnection Service*, 2006-00045 at 13 (Ky. P.S.C.
18 December 21, 2006).

19 Finally, Mr. Baron reads the language of the tariff out of context.

20 **Q. HOW SO?**

21 A. First, nothing in the program description section of the tariff from which Mr.
22 Baron quotes suggests that "the ability to experiment in the wholesale
23 electricity market by designating a portion of the customer's load subject to
24 standard tariff rates with the remainder of the load subject to real-time prices"
25 was intended by Kentucky Power as a distinct and independent objective of
26 the experimental program. Mr. Baron reaches his conclusion only by reading

1 the sentence in isolation and without explanation. In fact, as the immediately
2 preceding sentence makes clear, Kentucky Power intended that Tariff RTP
3 serve as a vehicle by which large industrial and commercial customers could
4 manage their electric costs “by shifting load from higher cost to lower cost
5 pricing periods or by adding new load during lower price periods.” The two
6 adjoining sentences, as with any document, must be read together. When so
7 read, the ability to experiment in the wholesale electricity market is simply a
8 concomitant benefit of managing electricity costs by shifting load.

9 Second, it is my understanding that Kentucky law generally prohibits
10 retail electric competition. Outside of managing electricity costs through
11 load-shifting, gaining experience in wholesale electricity markets in the
12 abstract, as Mr. Baron suggests, is meaningless except in a few extraordinary
13 situations.

14 Finally, Mr. Baron overlooks a portion of the very sentence upon
15 which he purports to rely. It provides in full “[t]he experimental pilot will
16 also offer the customer the ability to experiment in the wholesale electricity *by*
17 *designating a portion of the customer’s load subject to the standard tariff*
18 *rates with the remainder of the load subject to real-time prices.*” Yet eight
19 of the ten customers taking service under Tariff RTP failed to designate any
20 load as subject to standard tariff rates. If the sentence were a distinct
21 objective as Mr. Baron testifies eight of his ten clients would be ineligible
22 even under his reading of the tariff.

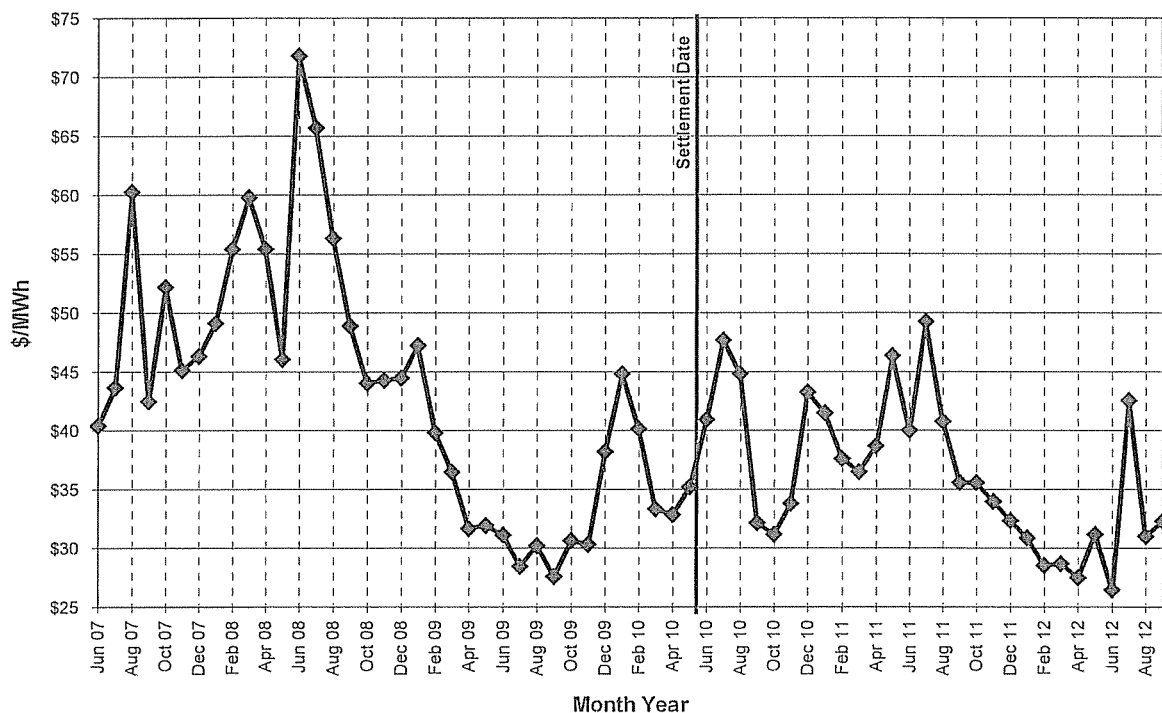
1 **Q. WHEN THE SETTLEMENT WAS AGREED TO IN 2010 AND TARIFF RTP**
2 **WAS EXTENDED THROUGH JUNE 2013, WAS THE COMPANY AWARE**
3 **OF THE UPCOMING REDUCTION IN PJM CAPACITY PRICES?**

4 A. Yes. The capacity charge is based on the PJM Interconnection Reliability Pricing
5 Model (RPM) capacity auction clearing price, which is updated by PJM for each PJM
6 planning year. These prices are known three years in advance of each planning year.
7 At the time of the agreement in Case No. 2009-00459, the PJM capacity price for the
8 2012/2013 planning year was known.

9 **Q. ARE CAPACITY PRICES THE ONLY COMPONENT IN TARIFF RTP?**

10 A. No. While the capacity charge is a major component of the billing calculation for
11 Tariff RTP, other components are also included in the total bill calculation. These
12 include the energy charge, which is based on locational marginal energy prices
13 (LMP), and the transmission charge, which is based on the AEP East Zone Network
14 Integration Transmission Service (NITS) rate. At the time of the settlement
15 agreement, May 2010, energy prices had been and were expected to continue to be
16 within a range that would have made Tariff RTP attractive primarily to participants
17 that shifted load to lower priced off-peak periods. Further, the cost of transmission
18 service under Tariff RTP was expected to increase over the period, and did increase,
19 based upon the expected growth in transmission investment. However, the decline in
20 energy prices since the May 2010 settlement was not known. The decline in average
21 monthly LMPs is shown in the chart below.

Average Monthly LMPs



As you can see, energy prices in the first nine months of 2012 have averaged approximately 21.7% lower than the corresponding period in 2010, which includes the date of the settlement.

Q. AT PAGE 16 OF HIS TESTIMONY, MR. BARON STATES “KENTUCKY POWER WAS ‘ROLLING THE DICE’ ON THE LEVEL OF THE LMP ENERGY MARKET TO OFFSET ITS KNOWN LOSSES IN CAPACITY CHARGES. IS THAT ACCURATE?”

A. Not really. Kentucky Power understood that it was assuming some risk in connection with capacity charges and LMP-based energy charges. But it was not the one-sided “roll of the dice” Mr. Baron seeks to portray. In return for this risk, Kentucky Power and its other customers would reap the benefits of larger industrial and commercial

1 customers shifting some portion of their load from higher-priced to lower priced
2 periods, or adding new load during lower-priced periods. Under traditional cost-of-
3 service principles, customers should benefit from reduced rates only when they take
4 actions that reduce the cost of providing service to them; they should not “free ride”
5 and receive a benefit without taking action. When free-ridership occurs, the utility
6 and its other customers are harmed. Absent the benefit of commensurate cost-
7 reductions, Tariff RTP becomes a one-sided gamble that the Company did not and
8 would not take. Also, even with the reduced energy prices such as occurred in mid-
9 2009, the shifting of load and the resulting reduction of on-peak usage would benefit
10 all customers and the Company. The Company considered this a reasonable bargain.
11 What is neither reasonable nor in the public interest is for Kentucky Power to sustain
12 the lower revenues because of the most recent drop in energy prices without any
13 offsetting benefit from load-shifting.

14 **Q. HAS TARIFF RTP BEEN SUCCESSFUL?**

15 **A.** No. During the first four years Tariff RTP was available, not a single customer took
16 service under it. That in itself suggests that the program was unsuccessful given that
17 it originally was slated to be a three-year experiment. Although ten customers are
18 now taking service under Tariff RTP in its final year, none, as Mr. Wohnhas testifies,
19 have shifted any load in response to price signals. As a result, some of the largest
20 industrial entities in Kentucky Power’s service territory are benefiting by receiving
21 below cost service at the expense of Kentucky Power and without any benefit to
22 Kentucky Power or its other customers. Such a result is unreasonable and not in the
23 public interest.

1 Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

2 A. Yes.

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY POWER)
COMPANY FOR APPROVAL OF AN)
EXPERIMENTAL RTP RIDER) CASE NO. 2012-00226

REBUTTAL TESTIMONY
OF
RANIE K. WOHNHAS

October 5, 2012

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

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I. 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: ARE YOU THE SAME RANIE K. WOHNHAS WHO PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?

A: Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the testimony of Kentucky Industrial Utility Customers, Inc. (KIUC) witness Baron concerning Kentucky Power's proposal to withdraw its existing Tariff RTP and to establish proposed Rider RTP in Case No. 2012-00226.

III. EXHIBITS

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?

A. Yes. I am sponsoring the following ten exhibits. For each customer taking service under Tariff RTP the exhibit contains a comparison of the hourly loads between 2011 and 2012 for July 1 through August 31 and the hourly load changes and prices for

1 July 1 through August 31, 2012. The exhibit also presents a comparison of the 2012
 2 loads and prices for the July and August highest and lowest priced days.

- 3 (1) RKW Exhibit No.1, Catlettsburg Refining.
- 4 (2) RKW Exhibit No. 2, Air Products & Chemicals.
- 5 (3) RKW Exhibit No. 3, AK Steel Corp.
- 6 (4) RKW Exhibit No. 4, EQT Jenkins.
- 7 (5) RKW Exhibit No. 5, EQT Oliver.
- 8 (6) RKW Exhibit No. 6, EQT Blackberry.
- 9 (7) RKW Exhibit No. 7, EQT Myra.
- 10 (8) RKW Exhibit No. 8, EQT Perry.
- 11 (9) RKW Exhibit No. 9, EQT Right Beaver.
- 12 (10) RKW Exhibit No. 10, EQT Rockhouse.

13 **IV. REBUTTAL TESTIMONY**

14 **Q. AT PAGE 11 OF HIS TESTIMONY, MR. BARON STATES THAT IF “LOAD-**
 15 **SHIFTING WAS THE SOLE OBJECTIVE OF TARIFF RTP IT WOULD**
 16 **HAVE BEEN WRITTEN TO EXPRESSLY OUTLINE THAT GOAL OR**
 17 **REQUIRE CUSTOMERS TO ENGAGE IN LOAD-SHIFTING AS A**
 18 **CONDITION OF ELIGIBILITY TO TAKE SERVICE UNDER TARIFF RTP.”**
 19 **HE THEN CONCLUDES THAT TARIFF RTP WAS NOT SO WRITTEN. IS**
 20 **THAT ACCURATE?**

21 **A. No. In the Program Description the Company unambiguously indicated that the tariff**
 22 **was intended for those customers who could and would manage their load:**

1 The RTP Tariff will offer customers the opportunity to manage their
 2 electric costs by shifting load from higher cost to lower cost pricing
 3 periods or by adding new load during lower price periods.

4 It is difficult to conceive how the Company could have more clearly outlined that
 5 goal.

6 **Q. IS MR. BARON CORRECT IN HIS INTIMATION THAT A “CUSTOMER**
 7 **BASE LINE” METHODOLOGY” (OR “CBL”) IS THE ONLY MEANS TO**
 8 **ENCOURAGE CUSTOMER LOAD-SHIFTING?**

9 A. No. Any tariff that allows a customer to respond to price signals by moving or
 10 adding load to lower price periods, as does Tariff RTP, encourages load shifting.

11 **Q. WHAT WAS THE RESPONSE TO TARIFF RTP DURING THE FIRST FOUR**
 12 **YEARS IT WAS OFFERED?**

13 A. Tariff RTP became effective June 1, 2008. During the first four years of its existence
 14 (which is one year longer than its original experimental period) no customers took
 15 service under the tariff.

16 **Q. MR. BARON TESTIFIES AT PAGE 5 OF HIS TESTIMONY THAT**
 17 **KENTUCKY POWER’S REQUEST TO WITHDRAW TARIFF RTP IS**
 18 **PREMATURE BECAUSE “CUSTOMERS HAVE ONLY RECENTLY BEGUN**
 19 **TAKING SERVICE UNDER TARIFF RTP AND THEREFORE, THE**
 20 **ACTUAL IMPACT OF TARIFF RTP ON CUSTOMER USAGE HAS NOT**
 21 **YET BEEN MEANINGFULLY ASSESSED.’ DO YOU AGREE?**

22 A. No. Two different assessments are available to show that this tariff has not
 23 accomplished its goal. First, Tariff RTP was available for four years before any
 24 customer elected to take service under it. Given the fact that the initial experimental

1 period established by the Commission was only three years, that is a clear signal that
2 the tariff was not working and demonstrates that customers were unwilling or unable
3 to manage their load in response to pricing signals as was the intent of the tariff.

4 Second, since early July when ten customers began taking service under this
5 tariff, it appears none have made any attempt to manage its load or shift demand. An
6 analysis of these two months is discussed later in my rebuttal testimony.

7 **Q. AT PAGE 23 OF HIS TESTIMONY MR. BARON REFERS TO EARLIER**
8 **INQUIRIES BY CERTAIN CUSTOMERS REGARDING TARIFF RTP.**
9 **DOES NOT THAT SUGGEST THE TARIFF WAS SUCCESSFUL?**

10 A. Again, no. The tariff was designed to encourage customers to shift or add load to
11 lower price periods. The inquiries did not shift one megawatt of load during the first
12 four years the tariff was available.

13 **Q. TEN CUSTOMERS ARE NOW TAKING SERVICE UNDER TARIFF RTP.**
14 **WHY SHOULDN'T THE COMMISSION ACCEPT MR. BARON'S**
15 **SUGGESTION AT PAGES 9-10 THAT THE COMPANY SHOULD**
16 **CONTINUE TARIFF RTP THROUGH AT LEAST JUNE, 2013 TO ALLOW**
17 **THE COMPANY TO COLLECT ACTUAL DATA OF THE CUSTOMERS'**
18 **OPERATIONS UNDER THE TARIFF?**

19 A. There are two reasons. First, prior to any of the current Tariff RTP customers signing
20 the contract to take service under Tariff RTP, I was told by representatives of
21 Catlettsburg Refining (Marathon) that Marathon lacked the ability to shift load. It
22 also was my understanding from some of the other Tariff RTP customers that they did
23 not intend to modify their operations in response to price signals.

1 **Q. WHAT IS THE SECOND REASON?**

2 A. Kentucky Power now has the results of the first two months of operations under
3 Tariff RTP. They indicate that no customer taking service under Tariff RTP has
4 shifted or added load to lower price periods in response to price signals.

5 **Q. BEFORE DISCUSSING THOSE RESULTS, PLEASE EXPLAIN WHY TWO**
6 **MONTHS OF DATA IS AN ADEQUATE BASIS TO CONCLUDE THAT THE**
7 **TEN TARIFF RTP CUSTOMERS ARE NOT SHIFTING THEIR LOAD IN**
8 **RESPONSE TO PRICE SIGNALS.**

9 A. The driving factor in making an economic decision on the amount of load to shift is
10 the price signals. The stronger the price signals the greater the benefit that can result
11 from responding and the greater the incentive to do so. With regard to Tariff RTP
12 these LMP price signals are typically greatest during the hot summer months when
13 demand is high. This was the case in July, and in response there was no attempt by
14 any Tariff RTP participant to shift load. Given such a strong incentive, it is difficult
15 to understand what other factors could encourage these customers to shift load during
16 the remaining months of the year. Therefore, two months of data provide an adequate
17 basis to conclude that the tariff has failed to accomplish its goal.

18 **Q. IS ADDITIONAL DATA REQUIRED?**

19 A. No. Although data on each Tariff RTP participant's efforts to shift load, including
20 the actions taken, would be helpful, none was provided when requested.

21 **Q. PLEASE EXPLAIN THE RESULTS OF THE COMPANY'S ANALYSIS OF**
22 **THE FIRST TWO MONTHS OF SERVICE UNDER TARIFF RTP?**

1 A. The Company reviewed the loads of the ten Tariff RTP customers for July and
2 August 2012. Customer specific loads were compared to loads from the same time
3 period one year earlier, and to the corresponding LMP market prices.

4 Results for the ten customers, shown on Exhibits RKW 1 through 10, showed
5 no change in usage patterns and no response to market prices even though prices
6 spiked to several hundred dollars per kilowatt hour several times in July. This
7 strongly suggests that none of these customers shifted their load to lower price
8 periods. Moreover, while the Company has no way of knowing of any internal efforts
9 made by individual customers to shift load during these periods, it appears none of
10 the customers have made any attempt to shift or to add load to lower price periods
11 since being placed on this Tariff.

12 **Q. ARE THESE RESULTS AN ADEQUATE BASIS FOR CONCLUDING IT IS**
13 **UNLIKELY THAT ANY OF THE TEN CURRENT TARIFF RTP**
14 **CUSTOMERS WILL SHIFT OR ADD LOAD TO LOWER PRICE PERIODS**
15 **IN THE FUTURE?**

16 A. Yes. As an example, if any of these customers had any intention of shifting load to
17 manage their energy usage, this would have occurred in July when price signals were
18 high. During July, hourly LMP prices spiked to between \$100 and \$200 /kWh 20
19 times, to between \$200 and \$300 /kWh 10 times, and to over \$300/kWh 4 times. A
20 review of each of these 10 customers' loads during these high priced hours shows that
21 no attempt was made to manage their energy usage. The lack of response to such a
22 strong incentive clearly shows they were unable to shift or manage load. Further, it
23 would be unreasonable to expect any effort to do so in the remaining months of the

1 year when price signals are typically not as strong. In addition, it is significant that
2 although Mr. Baron argues for data collection through at least June, 2013 so that data
3 can be collected “regarding the impact of taking service under Tariff RTP on energy
4 usage”, he failed to identify plans by any of the ten Tariff RTP customers to shift or
5 add load to lower price periods.

6 **Q. IN THE ABSENCE OF LOAD-SHIFTING, ARE ANY BENEFITS FLOWING**
7 **TO KENTUCKY POWER OR ITS OTHER CUSTOMERS?**

8 A. No. The ten customers currently participating in Tariff RTP are benefiting through
9 lower capacity and energy prices; however, because no load has been shifted, other
10 customers across the KPCo system are not benefiting from reduced KPCo demand.
11 Moreover, as noted by the Attorney General in Case No. 2007-00166, the shifting of
12 load in response to price signals, as the Company intended for participants to do,
13 would provide valuable information for non-participants as well. No lessons can be
14 learned and shared with other customers concerning methods to shift or add load in
15 response to price signals in the absence of the customers taking service under Tariff
16 RTP actually doing so.

17 **Q. HAS THE COMPANY REACHED ANY CONCLUSIONS CONCERNING**
18 **THIS EXPERIMENTAL TARIFF RTP?**

19 A. Yes. The Company has concluded that this tariff has not encouraged large
20 commercial or industrial customers to manage their load as was its intent.

21 **Q. MR. BARON STATES AT PAGE 13 OF HIS TESTIMONY THAT IF**
22 **CUSTOMERS DO NOT SHIFT LOAD UNDER TARIFF RTP, NONE WILL**
23 **SHIFT LOAD UNDER RIDER RTP. HOW DOES THE COMPANY**

1 **RESPOND TO THIS STATEMENT?**

2 A. The ten customers currently taking service under Tariff RTP probably would not
3 benefit from Rider RTP because of their inability or unwillingness to manage their
4 load. However, the ten customers taking service under Tariff RTP are not the only
5 customers who are eligible for Rider RTP. Other eligible customers who are able to
6 modify their load may take service under Rider RTP and benefit from shifting their
7 load to lower priced periods.

8 Under Rider RTP, like Tariff RTP, the customer must manage their load,
9 balance this against their own production need, and respond to price signals from the
10 market in order to benefit. Simply designating load to Rider RTP without shifting
11 load will yield no benefits to Kentucky Power or its other customers.

12 **Q. AT PAGE 18 OF HIS TESTIMONY MR. BARON CRITICIZES THE**
13 **COMPANY FOR STATING IN PARAGRAPH 9 OF ITS APPLICATION**
14 **THAT “THE DROP IN THE RPM CAPACITY RATE HAS MADE IT**
15 **‘ECONOMICALLY ADVANTAGEOUS’ FOR CUSTOMERS TO TAKE**
16 **SERVICE UNDER TARIFF RTP.”**

17 A. Mr. Baron very competently destroys a straw man of his own creation. He is able to
18 do so only by omitting from his characterization of the Company’s allegation the
19 second part of the sentence. In full, paragraph 9 alleges:

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

1 (emphasis supplied). Like his clients do with Tariff RTP, Mr. Baron simply reads out
2 of the allegation anything to do with load-shifting. What he cannot do is rebut the
3 simple fact that his clients are benefiting from Tariff RTP without managing their
4 load.

5 **Q. AT PAGES 13-18 OF HIS TESTIMONY MR. BARON DISCUSSES THE**
6 **COMPANY'S JUNE 1, 2012 ESTIMATE THAT IT WILL EXPERIENCE A**
7 **REVENUE LOSS OF APPROXIMATELY \$10 TO \$20 MILLION. DOES HE**
8 **DISPUTE THAT ESTIMATE?**

9 A. It is unclear. Instead, he testifies at page 18 that the true financial impact will not be
10 known until June, 2013.

11 **Q. WITH TWO MONTHS EXPERIENCE WITH TEN CUSTOMERS TAKING**
12 **SERVICE UNDER TARIFF RTP, HAS THE COMPANY REVISED ITS**
13 **ESTIMATE OF POSSIBLE REVENUE LOSS?**

14 A. No. The Company believes its estimated loss of approximately \$10 to \$20 million
15 over the period of July 1, 2012 through June 30, 2013 is still reasonable. While
16 actual results show that the July revenue from the 10 customers on Tariff RTP was
17 approximately \$107,000 higher than it would have been had these customers been on
18 their respective standard tariffs, the August revenue was approximately \$1,199,000
19 lower. The approximate break-even revenue in July was a result of the price spikes
20 during this month that I discussed earlier. Given that the typically higher summer
21 season has passed, there is nothing to lead the Company to believe its estimated
22 losses are unrealistic.

1 Q. MR. BARON ALSO SUGGESTS AT PAGES 20-22 OF HIS TESTIMONY
2 THAT THE COMPANY'S CURRENT REPRESENTATIONS CONCERNING
3 TARIFF RTP ARE AT ODDS WITH PRIOR REPRESENTATIONS. IS HE
4 ACCURATE?

5 A. With a single exception that I discuss below, Mr. Baron once again errs. Nothing in
6 the Commission's Order from which he quotes, or the Company's response to the
7 Attorney General's Data Request, is at odds with the fundamental premise of the
8 tariff or this application: Tariff RTP was intended to provide an economic incentive
9 for large industrial and commercial customers to manage their load by shifting or
10 adding load to lower price periods. Without such active management, the tariff
11 provides a windfall to participating customers with no benefit to Kentucky Power or
12 its other customers. For example, although Mr. Baron now criticizes the Company
13 for petitioning to withdraw the tariff now that customers are taking service under it
14 and thus depriving itself and the Commission of additional information, he overlooks,
15 as I discussed above, the fact that if customers do not shift load there is no
16 information to benefit the Company or other customers. Nor do the Company or its
17 customers benefit from reduced peaks.

18 Q. WHAT IS THE SINGLE EXCEPTION YOU MENTIONED ABOVE?

19 A. Kentucky Power erred in its belief that the "designated market portion will be a direct
20 flow through of PJM prices." Specifically, the Company thought it would be able to
21 isolate customers on Tariff RTP and buy the capacity and energy to serve these
22 customers through the PJM retail markets. The Company subsequently learned this
23 was not possible. But this misunderstanding on the part of Kentucky Power does not

1 change the fundamental fact that it is neither reasonable nor in the public interest for
2 RTP customers to garner a windfall without a concomitant benefit to Kentucky Power
3 and its other customers.

4 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

5 **A. Yes.**

KPC RTP Customer Analysis & Price Comparison

[REDACTED]

is evident.

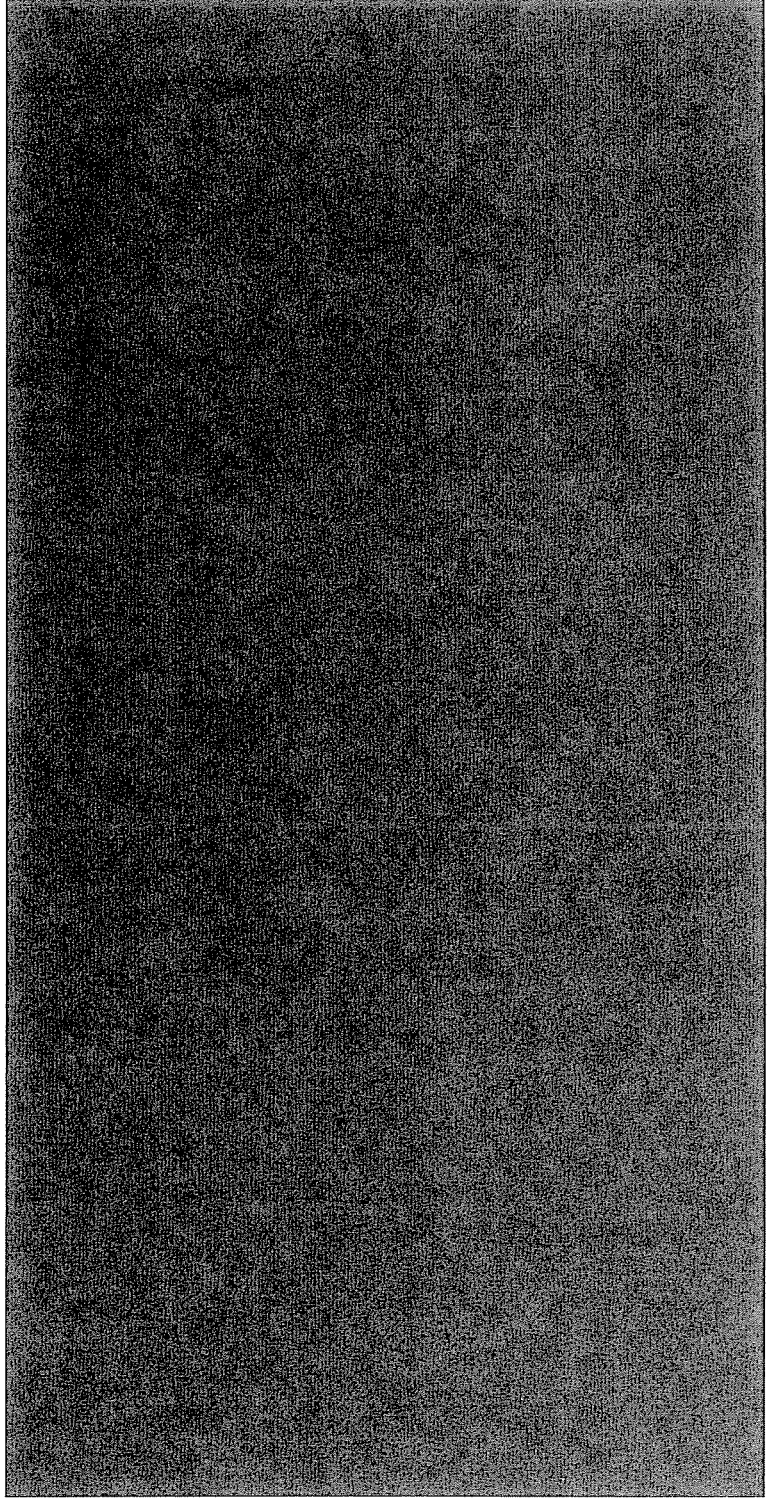
. No apparent response to price

[REDACTED]



KPC RTP Customer Analysis Daily Loads & Price

If the customer reduced load in response to high prices or increased load when prices were low, the load data on the highest and lowest priced days should show that response. No apparent response to price is evident.



KPC RTP Customer Analysis [REDACTED] Load & Price Comparison

[REDACTED]

No consistent response to price is evident.

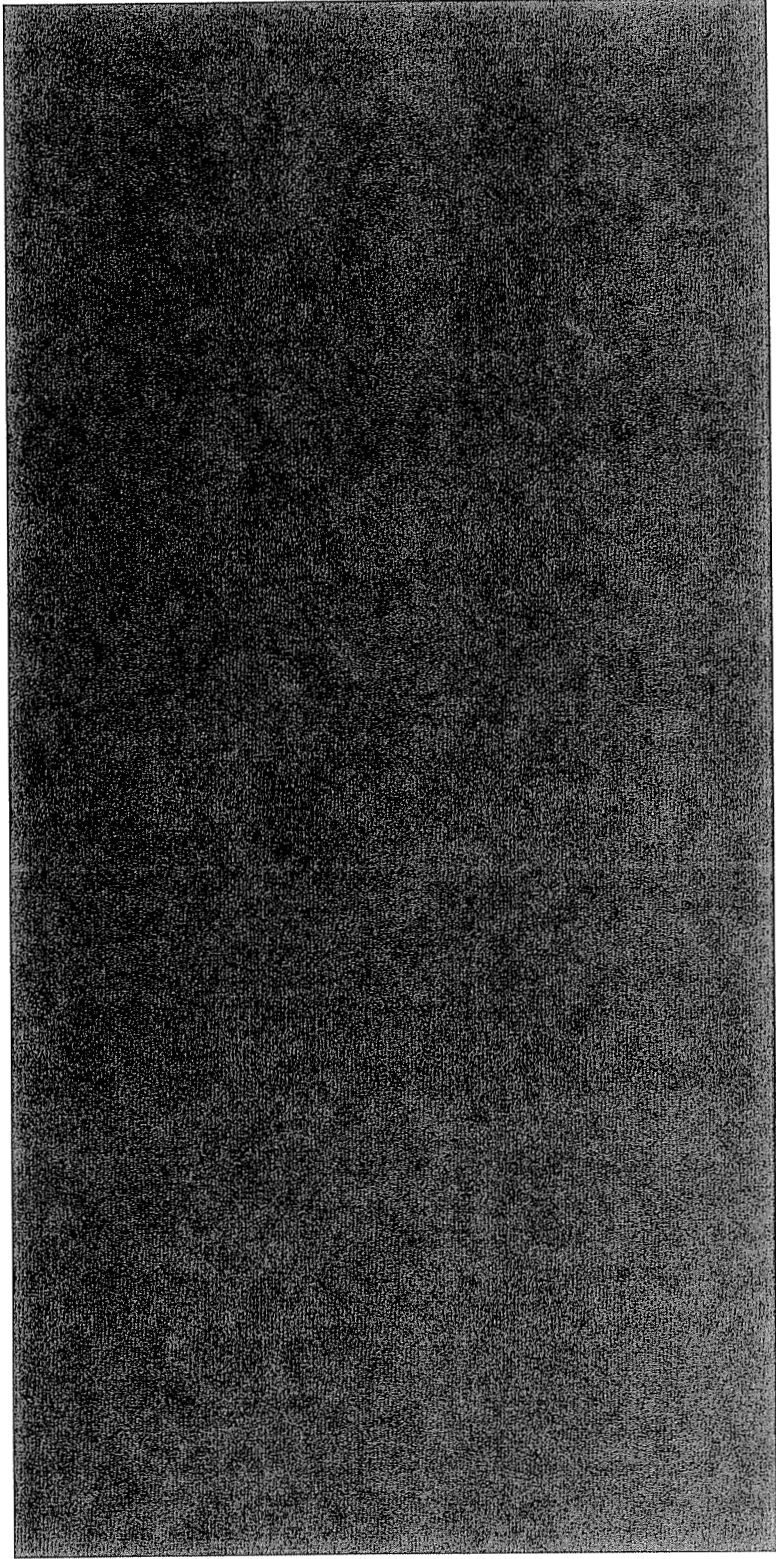
[REDACTED]



KPC RTP Customer Analysis

██████████ Daily Loads & Price

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KPC RTP Customer Analysis

Load & Price Comparison

[REDACTED]

[REDACTED]

No apparent response to price is evident.

[REDACTED]

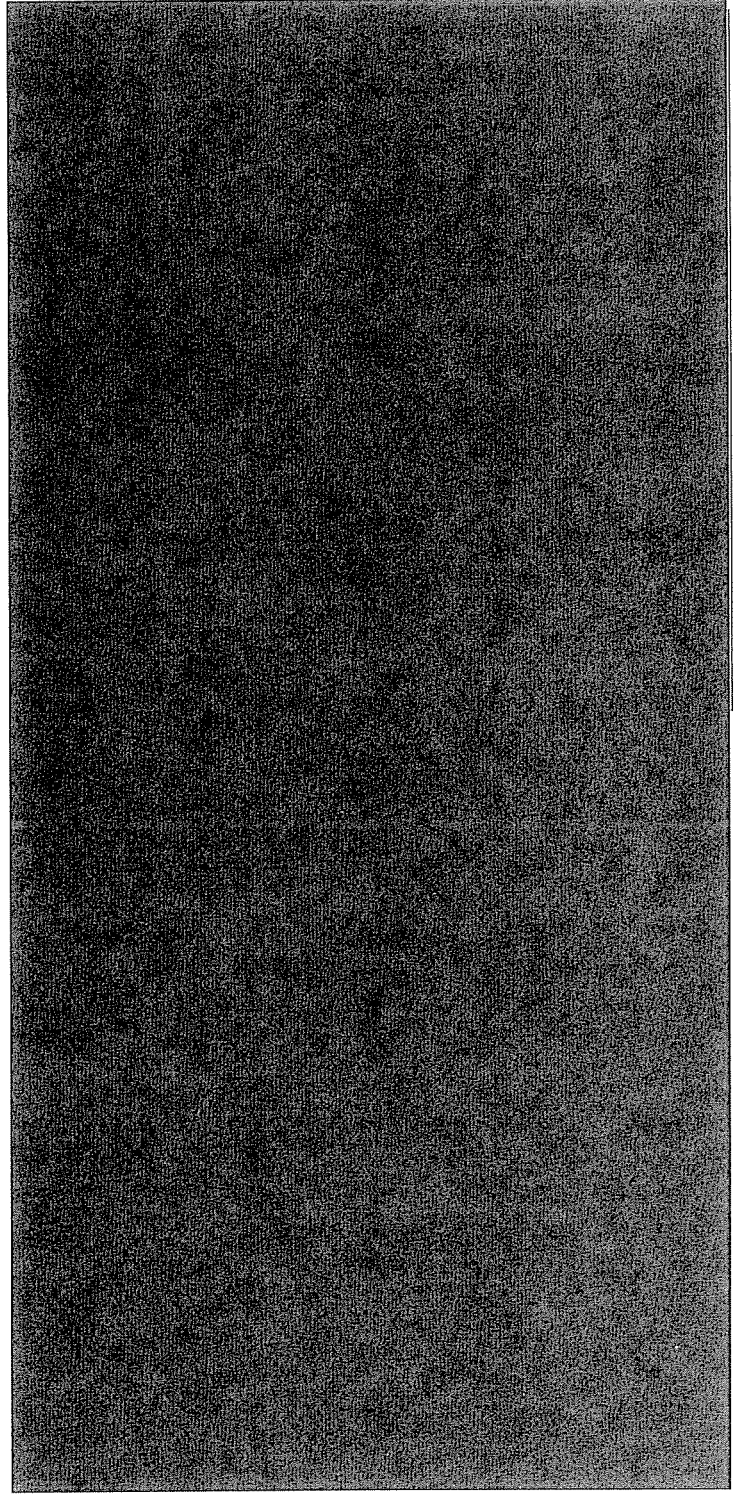


KPC RTP Customer Analysis



Daily Loads & Price

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KPC RTP Customer Analysis

Load & Price Comparison

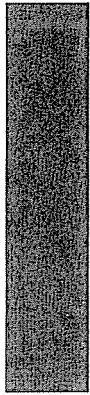
[REDACTED]

but no apparent response to price is evident.

[REDACTED]

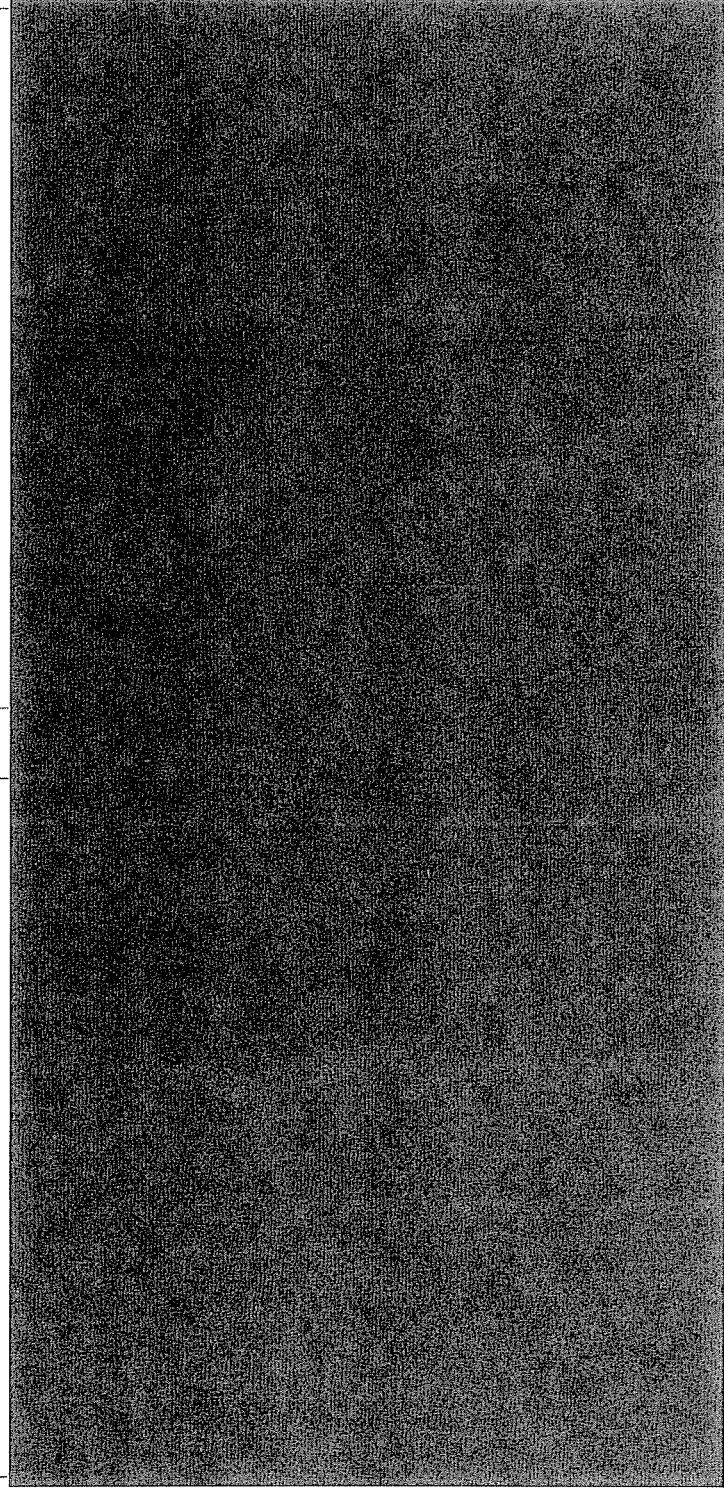


KPC RTP Customer Analysis



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KPC RTP Customer Analysis

Load & Price Comparison

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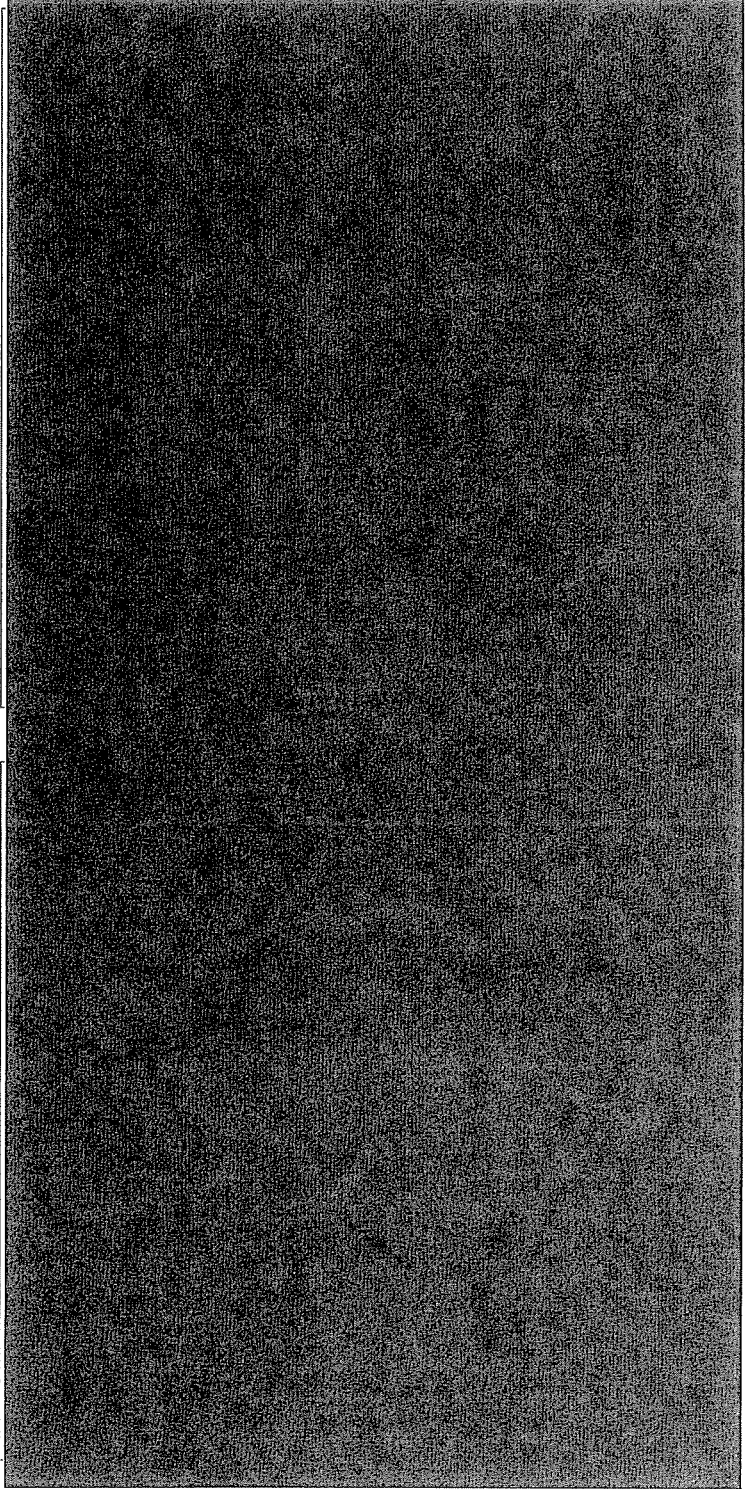
[REDACTED]



KPC RTP Customer Analysis

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KPC RTP Customer Analysis

Load & Price Comparison

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[REDACTED]

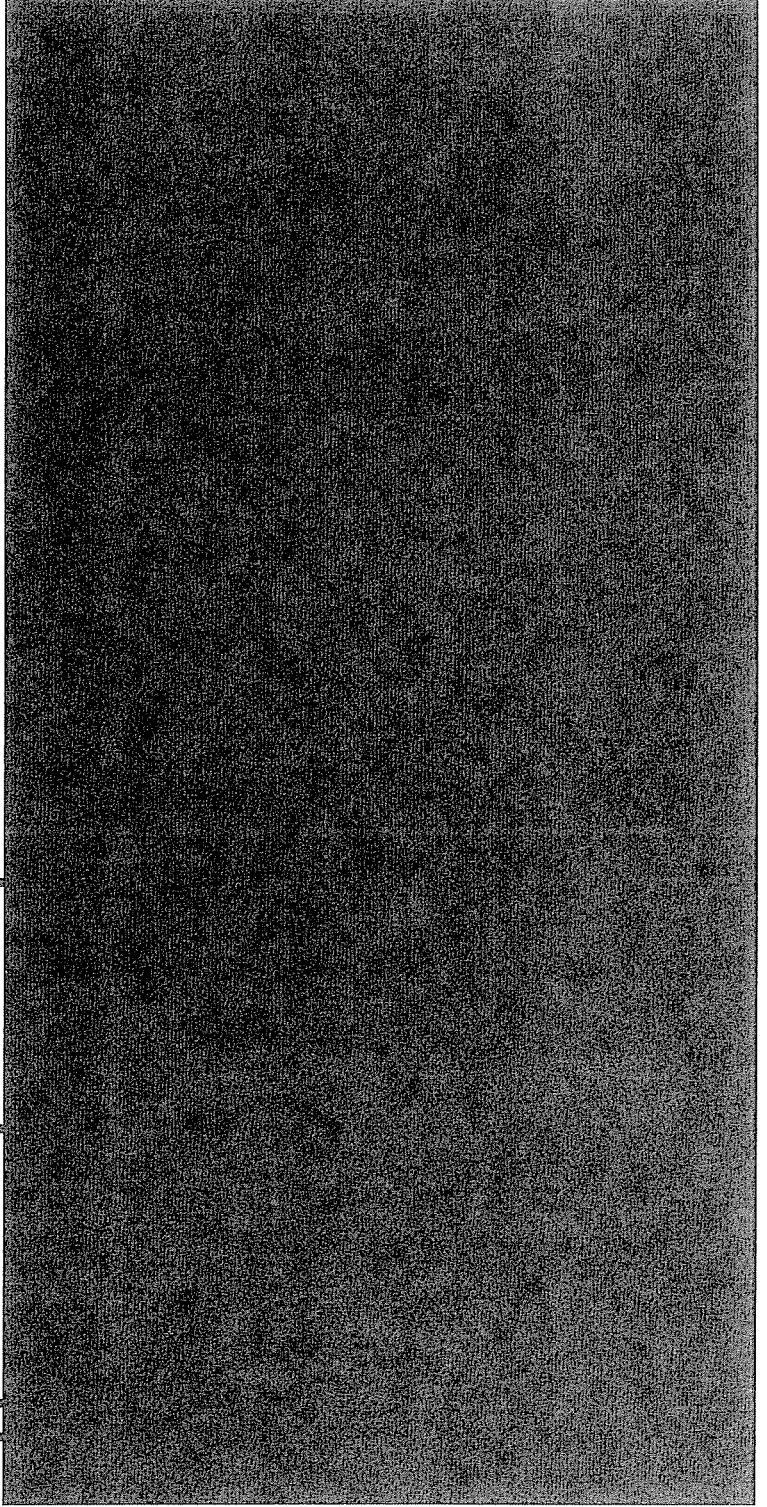


KPC RTP Customer Analysis



Daily Loads & Price

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KPC RTP Customer Analysis

Load & Price Comparison

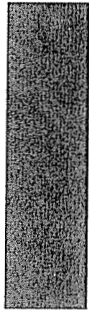
[REDACTED]

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[REDACTED]

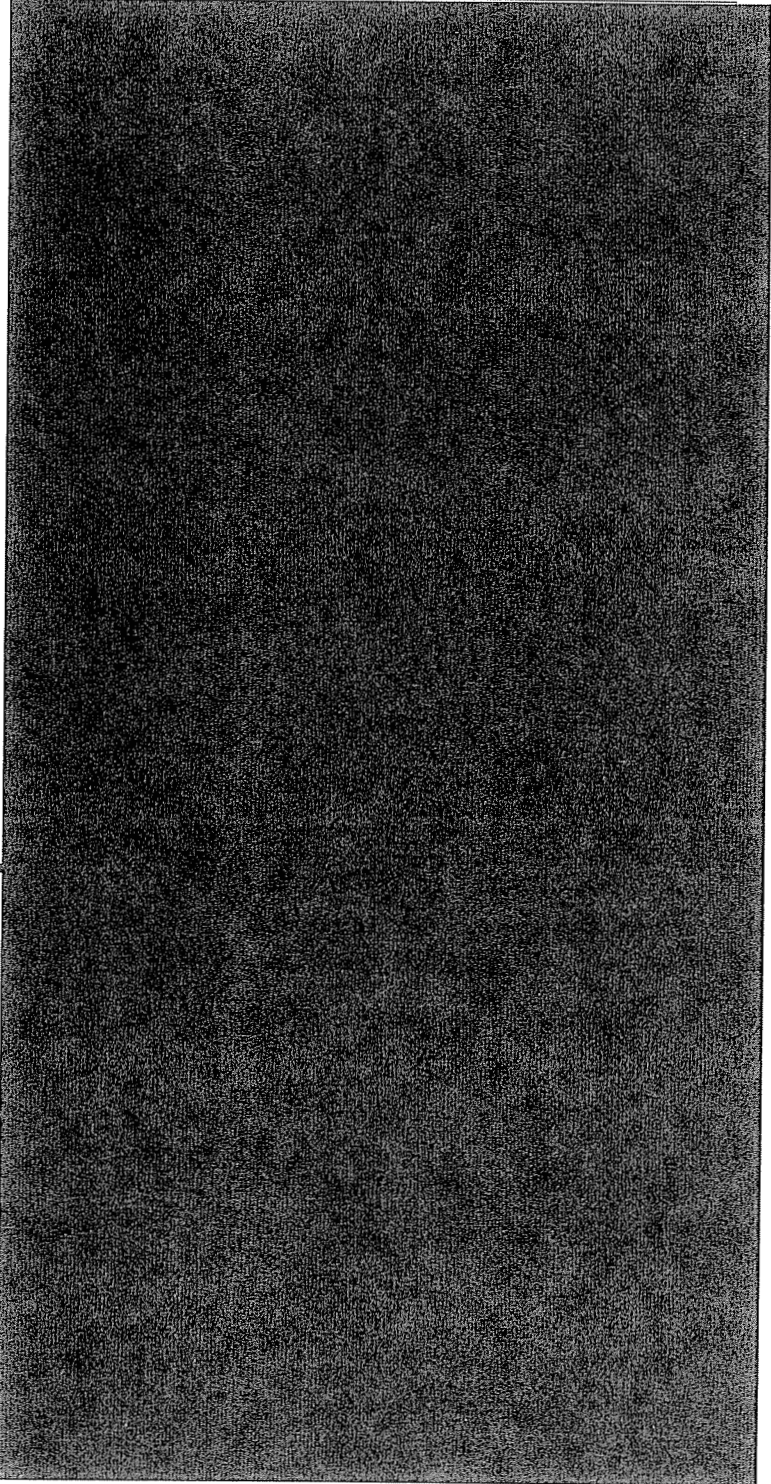


KPC RTP Customer Analysis



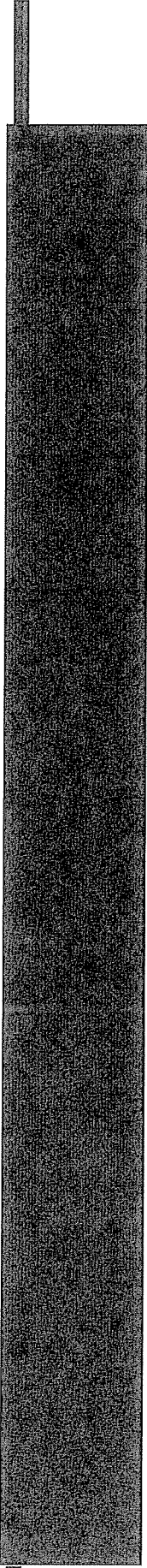
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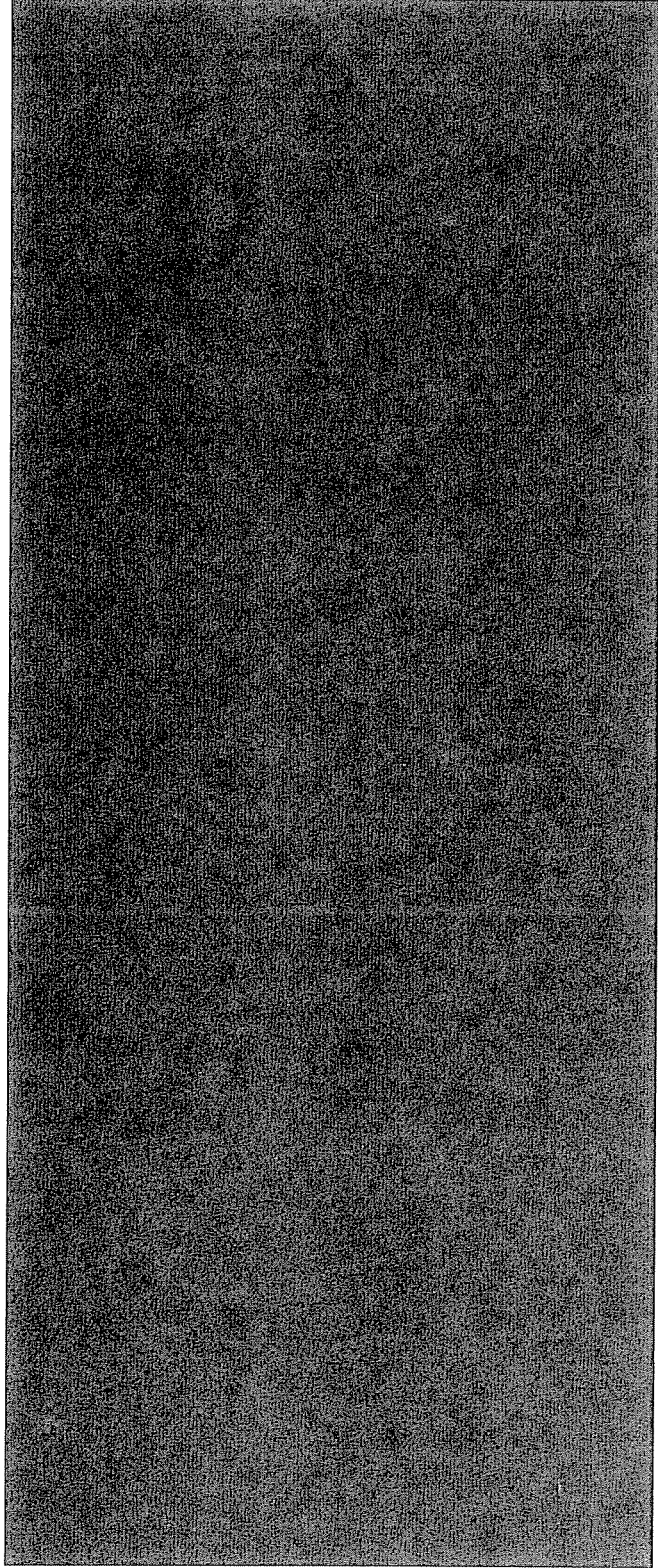


KPC RTP Customer Analysis

Load & Price Comparison

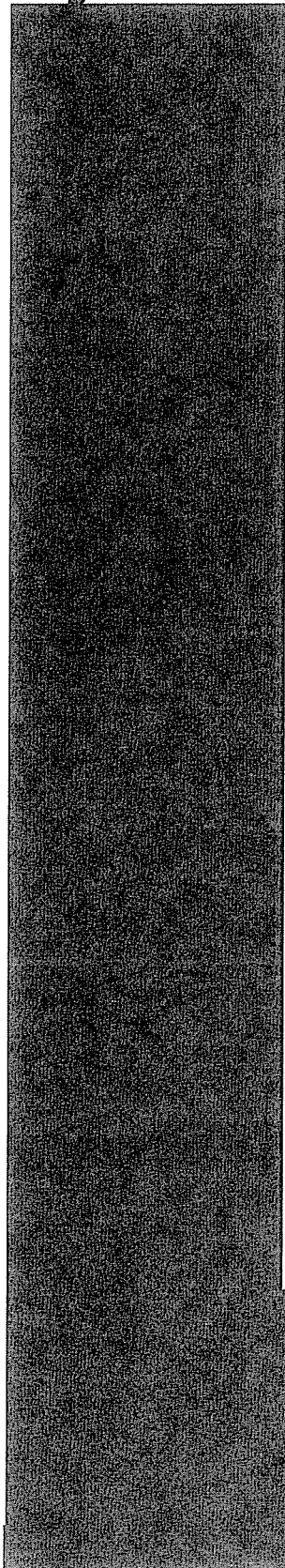


No apparent response to price is evident.

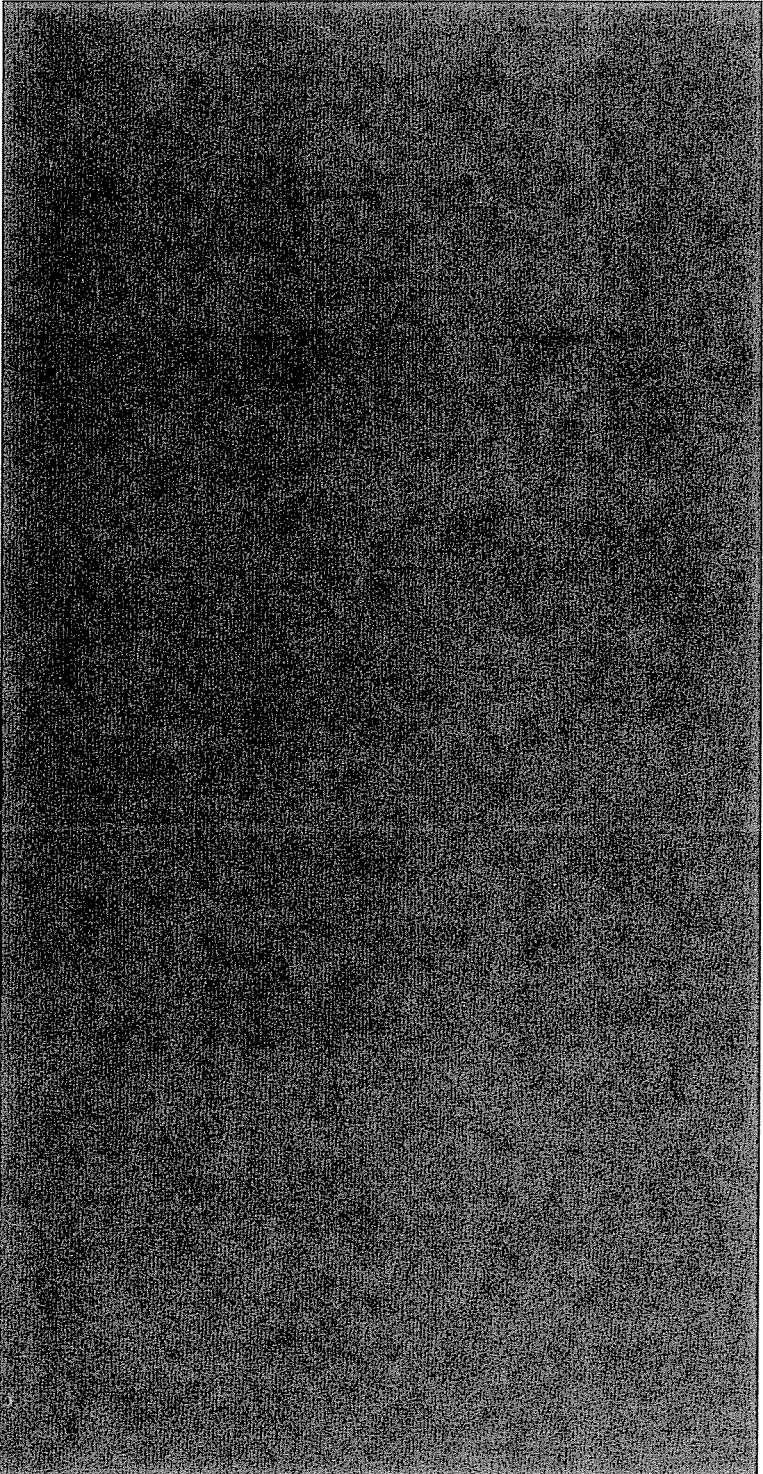


KPC RTP Customer Analysis

Daily Loads & Price



no apparent response to price is evident.



KPC RTP Customer Analysis

Load & Price Comparison

[REDACTED]

but no apparent response to price is evident.

[REDACTED]



KPC RTP Customer Analysis

Daily Loads & Price

[REDACTED]

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No apparent response to

[REDACTED]



KPC RTP Customer Analysis

Load & Price Comparison

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KPC RTP Customer Analysis

Daily Loads & Price

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