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June 28, 2013

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HAND DELIVERED

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

RE: Case No. 2012-00578

Dear Mr. Derouen:

Please find enclosed and accept for filing in this matter Kentucky Power Company's Response to the Commission's May 28, 2013 Order and accompanying motion for confidential treatment. Included as part of the Company's Response are:

(a) The Supplemental Testimony of Richard E. Munczinski;

(b) The Supplemental Testimony of Scott C. Weaver; and

(c) The Supplemental Testimony of Joseph A. Karrasch.

The requested analysis is presented at Exhibits SCW-1S and SCW-2S and accompanying workpapers.

The Response and motion are being served on all counsel of record by copy of this letter.

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

Very truly yours,

Mark R. Overstreet

MRO
cc: Counsel of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For: (1) A Certificate Of Public Convenience And Necessity Authorizing The Transfer To The Company Of An Undivided Fifty Percent Interest In The Mitchell Generating Station And Associated Assets; (2) Approval Of The Assumption By Kentucky Power Company Of Certain Liabilities In Connection With The Transfer Of The Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral Of Costs Incurred In Connection With The Company's Efforts To Meet Federal Clean Air Act And Related Requirements; (5) Approval Of The Renewable Energy Purchase Agreement For Biomass Energy Resources Between The Company And ecoPower Generation-Hazard LLC; And (6) For All Other Required Approvals And Relief	)	Case No. 2012-00578

SUPPLEMENTAL TESTIMONY OF

JOSEPH A. KARRASCH

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Joseph A. Karrasch, being duly sworn, deposes and says he is the Manager, Asset Investment, 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

Joseph A. Karrasch

STATE OF OHIO)
) SS
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Joseph A. Karrasch, this the 25th day of June, 2013.

Notary Public

My Commission Expires: January 4, 2014

NOTARIAL SEAL
STATE OF OHIO

Donna J. Stephens
Notary Public, State of Ohio
My Commission Expires 01-04-2014

SUPPLEMENTAL TESTIMONY OF
JOSEPH KARRASCH, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

CASE NO. 2012-00578

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SUPPLEMENTAL TESTIMONY OF
JOSEPH KARRASCH, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

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

A. My name is Joseph A. Karrasch. I am employed by American Electric Power Service Corporation (AEPSC) as Manager – Asset Investments / Renewables. My business address is 155 W. Nationwide Boulevard, Columbus, Ohio 43215.

II. BACKGROUND

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I earned a Bachelor's degree in Mechanical Engineering from West Virginia University and a Master's degree in Business Administration from Ohio University. I have over twenty seven years of electric utility experience with AEP. I spent the first 22 years of my career with AEP working in several of AEP's power generation facilities. During my career in generation, I held a variety of positions including Performance Engineer, Maintenance Superintendent, Energy Production Manager, and General Plant Manager. In 2008, I took a position with AEPSC in my current role as Manager – Asset Investments / Renewables. As Manager – Asset Investments / Renewables, I have been involved in the evaluation of asset (generation plants) acquisition opportunities and have supported the management of AEP's and its subsidiaries' portfolio of Renewable Energy Purchase Agreements (REPAs). Besides

managing the 250 Big Sandy 1 MW RFP, I was the RFP (request for proposals) Manager for renewable resources for several of AEP's affiliate operating companies.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER – ASSET INVESTMENTS / RENEWABLES?

A. As Manager – Asset Investments / Renewables, I am responsible for managing AEP's and its subsidiaries' portfolio of REPAs. I am one of the direct members of the team that structures and issues renewable energy RFPs, reviews and responds to questions posed by potential bidders, and evaluates proposals. I also participate in leading the negotiation and finalization of the REPAs with the winning bidder(s). In addition, I participate in a multi-discipline team which evaluates potential asset (generation facilities) acquisition opportunities, when such opportunities arise.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No.

III. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. On May 28, 2013 the Commission ordered the Company to provide an analysis of the net present value requirements of the bids received to the Company's March 28, 2013 request for proposal for up to 250 MW of long-term capacity and energy ("RFP"). The purpose of my testimony is to describe the 250 MW RFP for capacity and energy, discuss both the conforming and non-conforming responses

to this RFP as well as discuss some of the risks associated with a market purchase alternative versus relying on generation owned by the Company.

IV. THE 250 MW RFP FOR CAPACITY AND ENEGRY

Q. PLEASE BRIEFLY DESCRIBE THE 250 MW RFP FOR CAPACITY AND ENERGY.

A. The Company issued the RFP on March 28, 2013 as part of the process to determine the least-cost solution for replacing the impending generation loss resulting from the anticipated retirement of its Big Sandy Unit 1 generation unit. The management and evaluation of this RFP is directed by select AEPSC personnel that have been segregated into two groups – a Development Group and an Evaluation Group. The Development Group, which I am a participating member, is responsible for the design, development, and management of the overall RFP process, while the Evaluation Group is responsible for evaluating the RFP Proposals and the BS1 Conversion cost as provided by the AEPSC Projects Group (Conversion Group). Members of the Development and Evaluation Groups are separate groups from the Conversion Group or any Affiliate of the Company that may have wished to participate in this RFP. The Company received responses to the RFP on June 11, 2013, the date identified within the RFP as the Proposal Due Date. [redacted]

Q. PLEASE DESCRIBE THE PROCESS THROUGH WHICH THE COMPANY NOTIFIED POTENTIAL BIDDERS OF ITS RFP.

A. The Company used a variety of communication channels to notify potentially interested parties that it was issuing the RFP. The Company published the RFP

and associated schedule on its website at www.kentuckypower.com/go/rfp. The Company issued a press release which was also posted to its website, as well as providing notice to numerous trade publications regarding the issuance of its RFP. The Company also maintained an ongoing dialogue to respond to potential bidder's question through an on-line Q&A format, all of which is available for review by the prospective bidders on the KPCo website.

Q. DID THE RFP EXPRESS INTEREST ONLY IN PROPOSALS FROM PROJECTS LOCATED WITHIN PJM?

A. Yes. Section 2 of the RFP stated that AEPSC was requesting bids which would result in obtaining up to approximately 250 MW of PJM Generation Capacity Resources. In addition, energy delivered under a proposed purchase power agreement or tolling agreement, is required to be scheduled in the PJM InSchedule system with a Sink at the Big Sandy Unit 1 node. This scheduling requirement was included in the RFP to allow the Company to utilize any proposed Resource in a manner similar to a Product produced from the Company's Big Sandy Unit 1 resource. It will also enable the Company to compare Proposals to the BS1 Conversion cost.

Q. WHY DID THE RFP SPECIFY THAT THE BID PROPOSALS MUST BE FROM A FACILITY THAT CAN BEGIN DELIVERY BY JUNE 1, 2015?

A. The commencement of delivery specified within the RFP was based on the scheduled retirement of Big Sandy Unit 1. Failure to meet this delivery date could expose the Company to spot market energy risks and additional costs to

meet its PJM FRR capacity obligation, as further detailed in the testimony of Company Witness Munczinski.

Q. WHY IS IT IMPORTANT FOR THE BID PROPOSALS TO MEET ALL OF THE REQUIREMENTS SPECIFIED IN THE RFP?

A. Two of the major reasons the proposals need to meet all of the requirements specified in the RFP are; (1) so the Company can meet the objective specified in the RFP, and (2) so that the bid proposals can be evaluated on an 'apples to apples' basis.

Q. PLEASE BREIFLY DESCRIBE THE CONFORMING RESPONSES TO THE RFP.

A. Section 4 of the RFP detailed the scope of the product the Company was soliciting through the RFP. The RFP in its entirety has been included as Exhibit JAK -1S. Conforming responses to the RFP are those that meet the requirements as described in Exhibit JAK-1S. The Company received [redacted] in response to its solicitation. [redacted] Confidential Exhibit JAK-2S provides a summary of the Conforming Bids and Non-Confirming Bids.

V. NON-CONFORMING PROPOSALS

Q. PLEASE BRIEFLY DESCRIBE THE NON-CONFORMING RESPONSES TO THE RFP.

A. Non-conforming bids are defined as proposals the Company received that failed to meet one (or more) of the material product specifications outlined in the RFP.

The Company received a total of [redacted] The non-conforming bids failed to comply with the requirements primarily as a result [redacted]

Q. DID THE NON-CONFORMING BIDS [redacted]

A. [redacted]

Q. WHY DID THE RFP EXCLUDE PROJECTS LOCATED OUTSIDE OF THE PJM FOOTPRINT?

A. In order for a generating unit located outside of the PJM control area to provide KPCo with capacity and energy, it must secure Long Term Firm (LTF) Transmission service from PJM. The process involves multiple studies and typically requires 18-24 months to complete. Once these studies are complete, an estimate for the amount and cost of upgrades would be provided by PJM to the proposed transmission customer quantifying the cost to grant transmission service. Depending on the extent of transmission upgrades required, the

additional time required for construction of the interconnection facilities could exceed the original time required for the studies. The process and requirements for requesting LTF Transmission Service from PJM are set forth in PJM Manual 2 and PJM Manual 14A. Exhibit JAK-3S provides PJM's overview of the process. In addition to the PJM LTF Transmission Service, a transmission reservation to export the energy from [redacted] to PJM would also have to be obtained from [redacted]. The process of securing all of the necessary firm transmission service would add significant time, cost, and uncertainty to a bid proposal from a resource in [redacted]. There is no need for KPCo or its customers to assume such large risks when alternatives, without those risks, are available within PJM.

Q. DOES THE FACT [redacted]

A. [redacted]

VI. RISKS ASSOCIATED WITH PROCEEDING WITH A MARKET ALTERNATIVE

Q. ARE THERE ANY RISKS WITH A MARKET ALTERNATIVE?

A. Yes, there are several risks that should be considered when evaluating a market alternative. First, pursuing a market alternative introduces counterparty risk. Secondly, a market alternative introduces additional risk regarding the maintenance and unit condition of the facility supporting the purchase. And finally, there are jurisdictional considerations associated with a market alternative.

Q. PLEASE DESCRIBE SOME OF THE COUNTERPARTY RISKS ASSOCIATED WITH A MARKET ALTERNATIVE.

A. Relying on a market purchase of capacity and energy, whether through a Power Purchase Agreement or a Tolling Agreement, creates counterparty risk. Essentially, the Company and its customers must rely on a third-party to fulfill their obligations under the purchase or tolling agreement. The failure of the third-party to fulfill their obligation could result in significant volatility in rates. For example, if the third-party was forced to declare bankruptcy, or choose to default on the contract, then the Company and its customers could find themselves in the position of having to purchase more expensive replacement energy and capacity on the open market. Such reliance, as further discussed in the testimony of Company Witness Munczinski, creates uncertainty and risks that are contrary to the interests of the Company and its customers.

Q. PLEASE DESCRIBE THE UNIT CONDITION RISK ASSOCIATED WITH A MARKET ALTERNATIVE.

A. As stated in the direct testimony of Company Witness LaFleur, the maintenance, performance, and current condition of the Mitchell Units are well understood by the Company. Moreover, even with due diligence, the Company cannot and will not know as much about a third-party unit's condition and operational capabilities as it does about the Mitchell units. Under a market alternative, the company must rely on a third party to ensure that the generating facility is reliably maintained and operated. The potential risk and costs to the Company and its customers are similar to the counterparty risk I described previously. If the third party generating unit was unable to run as expected, then the Company and its customers could find themselves in the position of having to purchase more expensive replacement energy and capacity in the spot market.

Q. PLEASE DESCRIBE THE JURISDICTIONAL TREATMENT ASSOCIATED WITH A MARKET ALTERNATIVE.

A. A market alternative, using either a Power Purchase Agreement or a Tolling Agreement, is considered a wholesale market contract. As such, the contract falls under the jurisdiction of the FERC. Although the Kentucky Commission has the initial ability to review and approve certain longer-term purchase power agreements, its jurisdiction thereafter is significantly limited or non-existent. By contrast, the on-going regulation of a Company owned asset, such as the Company's proposed transfer of the Mitchell Units, would continue to be regulated by the Kentucky Public Service Commission.

Q. ARE THE RISKS YOU HAVE DESCRIBED ABOVE UNIQUE TO THE SPECIFIC RESPONSES THE COMPANY RECEIVED IN ITS CURRENT RFP?

A. No, they are not. The issues related to market alternatives are generally present to some degree in all market transactions.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

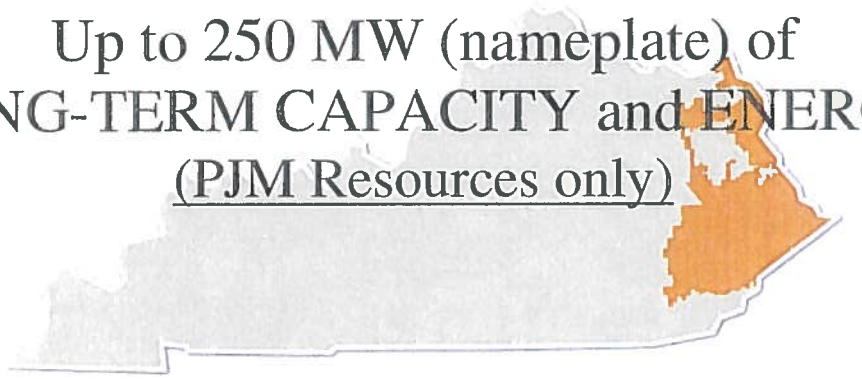
American Electric Power Service Corporation

as agent for

Kentucky Power Company

Request for Proposals

Up to 250 MW (nameplate) of LONG-TERM CAPACITY and ENERGY (PJM Resources only)



Capable of being on-line by June 1, 2015

Issued:
March 28, 2013

Web Address: http://www.kentuckypower.com/go/rfp/

Proposals Due:
June 11, 2013 (Columbus, OH)

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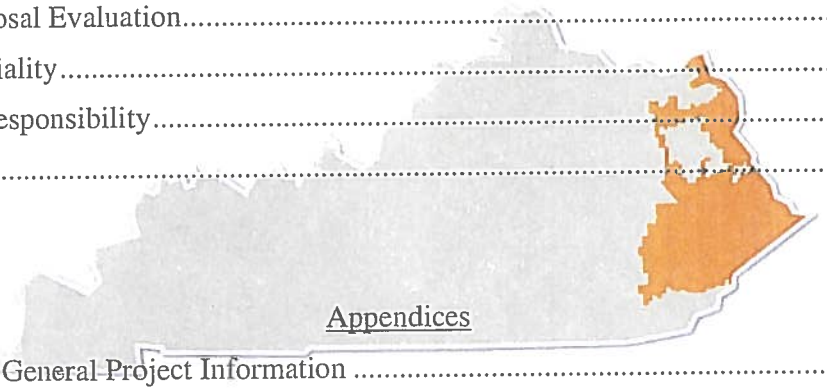


Appendices

Background

Kentucky Power Company (Company) is undertaking a process to determine the least, reasonable cost solution to replacing the impending generation loss anticipated with the retirement of its Big Sandy Unit 1 generation unit. Big Sandy Unit 1 is a 260 MW coal fired generating unit that went into service in 1963 and is currently scheduled for retirement in 2015. Big Sandy Unit 1 is located near Louisa, Kentucky and is within the PJM regional transmission organization.

The options available to the Company for the replacement of the Big Sandy Unit 1 generation capacity as a coal fired generation resource include:

- BS1 Conversion: converting Big Sandy Unit 1 to a natural gas fired generation unit (BS1 Conversion). The projected cost to convert Big Sandy Unit 1 will be developed by American Electric Power Service Corporation's (AEPSC) Projects, Controls & Construction group. (AEPSC Projects Group).

- PJM Capacity Resource Request for Proposals (RFP): issue an RFP for 250 MW of PJM Generation Capacity Resources.

The Company will use the proposals (Proposals) received as a result of the 250 MW RFP along with the BS1 Conversion cost estimate to determine the least, reasonable cost solution to replacing the Big Sandy Unit 1 capacity as a coal fired generating unit.

The evaluation of the RFP and BS1 Conversion is not a commitment to convert (BS1 Conversion) or purchase (RFP) and shall not bind the Company or any affiliates of the Company in any manner. The Company in its sole discretion will determine which direction, if any, it wishes to take with respect to replacing the Big Sandy Unit 1 coal fired generation capacity, energy, and ancillary services.

The management and evaluation of this RFP will be directed by select AEPSC personnel that have been categorized into two groups – a Development Group and an Evaluation Group. The Development Group will be responsible for the design, development, and management of the overall RFP process, while the Evaluation Group will be responsible for evaluating the RFP Proposals and the BS1 Conversion cost as provided by the AEPSC Projects Group. Members of the Development and Evaluation Groups are separate groups from the AEPSC Projects Group or any Affiliate of the Company that may wish to participate in this RFP.

AEPSC and the Company will ensure that the bids received in response to this RFP along with the BS1 Conversion cost are evaluated in a consistent, transparent, and impartial manner.

1. Company Information

1.1. American Electric Power (AEP) is one of the largest electric utilities in the United States, delivering electricity to more than 5.3 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 38,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 39,000-mile network that includes more 765 kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and Texas). AEP's headquarters are in Columbus, Ohio. More information about AEP can be accessed by visiting www.aep.com.

1.2. Kentucky Power Company provides service to approximately 173,000 customers in all or part of 20 eastern Kentucky counties and is headquartered in Frankfort, KY. The Company has approximately 1,233 miles of transmission lines and 11,242 miles of distribution lines. Its distribution operations are based in Ashland with service centers in Pikeville and Hazard. The Company also has area offices in Paintsville and Whitesburg. More information about the Company can be accessed by visiting www.kentuckypower.com.

2. Introduction

2.1. American Electric Power Service Corporation, a subsidiary of AEP is administering this Request for Proposals (RFP) on behalf of Kentucky Power Company (Company). AEPSC is requesting bids which will result in obtaining up to approximately 250 MW of PJM Generation Capacity Resources[1] (Resources).

2.2. Resources bid into this RFP must be capable of being on-line by June 1, 2015 and able to supply a "Bundled Product" that includes Capacity (MW), Energy (MWh), and Ancillary Services if available.

2.3. AEPSC is requesting Proposals from parties desiring to sell a Bundled Product through a Power Purchase Agreement (PPA), Tolling Agreement (TA), an Asset Purchase Agreement (APA), or Other Proposal (OTH) as further defined in this RFP.

In addition, AEPSC will be accepting Proposals from demand-side management (DSM) and cost-effective energy efficiency (EE) resources.

[1] PJM Generation Capacity Resource is a generation unit, or the right to capacity from a specified generation unit, that meets the requirements of Schedules 9 and 10 of the PJM Reliability Assurance Agreement. A Generation Resource may be an existing Generation Resource or a Planned Generation Resource.

2.4. Energy scheduled as a result of any PPA, TA, or OTH agreement shall be scheduled via a unilateral schedule in the PJM InSchedule system with a Sink at the Big Sandy Unit 1 Pnode as further described in Section 4.4.2 *(Note: this scheduling requirement will enable the Company to utilize any proposed Resource in a manner similar to a Product produced from the Company's Big Sandy Unit 1resource. In addition, it will enable the Company to compare Proposals to the BS1 Conversion cost as referenced in the Background of this RFP).*

2.5. For each Proposal, a Seller shall offer only one Base Proposal. Sellers are encouraged to provide the Company with a Base Proposal that reflects what it believes is their best pricing Proposal. At no point in the evaluation process will a Seller have the opportunity to unilaterally change its Proposal.

2.6. For each Base Proposal, a Seller is allowed to submit up to three alternatives (each an "Alternative Proposal"). Alternative Proposals may be for different bid sizes, term of contract (15 years or greater), or alternate contract terms and conditions. Proposals based on a different site, technology, contract type, or fuel supply arrangement from the Base Proposal must be submitted as a separate Proposal.

2.7. The Company will allow affiliates (Affiliates) of the Company to participate in this RFP. Affiliates will be required to follow all of the requirements of this RFP including the process outlined in Section 3 regarding questions. If an Affiliate's Proposal is offered, its Proposal (i) shall be submitted in the same format and under the same rules and (ii) shall be evaluated in the same manner as other Proposals submitted into this RFP.

2.8. The Company has established a web page (www.kentuckypower.com/go/rfp) at its website for this RFP. AEPSC and Kentucky Power Company reserve the right to amend this RFP at any time and at its sole discretion. Any amendments to this RFP will be posted at the Company web page.

2.9. This RFP is not a commitment to purchase and shall not bind the Company or any affiliates of the Company in any manner. The Company in their sole discretion will determine which Seller(s), if any, it wishes to engage in negotiations that may lead to a binding contract.

3. RFP Questions

3.1. Throughout the RFP process, interested parties may submit questions regarding this RFP to AEPSC via:

- instructions located at the Company's website established for this RFP (www.kentuckypower.com/go/rfp) or
- by emailing 2013KentuckyPowerRFP@aep.com.

3.2. Questions submitted as outlined in Section 3.1 above will be reviewed by AEPSC. Those questions (and answers) which AEPSC views in its sole discretion to be of benefit to other potential RFP participants will be posted on the Q&A portion of the website. Posted questions and answers will not identify the originator of the question.

4. Scope

The following sub-sections describe the scope of this RFP. All questions regarding the scope of this RFP should be submitted through the Company's website or RFP email address as outlined in Section 3.

4.1. Product – the Company is seeking a low cost Bundled Product from PJM Generation Capacity Resources that includes the following.
- 4.1.1. Capacity (MW)
- 4.1.2. Energy (MWh)
- 4.1.3. Ancillary Services (if available)
- 4.1.4. Environmental Attributes[2] (if available)

4.2. Quantity – the Company is seeking Proposals for up to 250 MW, however, may procure more or less than 250 MW, and may aggregate Bundled Products from multiple Sellers to meet its needs, or select no offers at all.
- 4.2.1. Proposals shall have a minimum nameplate capacity size of 50 MW, with the exception of DSM / EE Proposals.
- 4.2.2. DSM and EE Proposals shall have a minimum size of 1 MW.

4.3. Delivery Period – The delivery of Capacity and Energy should begin no earlier than June 1, 2015.
- 4.3.1. Delivery period start dates later than June 1, 2015 will be accepted, however, Seller will be required to supply to the Company the PJM Capacity value for the period between June 1, 2015 and the actual delivery start period.
- 4.3.2. All Base Proposals, with the exception of DSM/EE Proposals, shall have a term of 15 years. Base Proposals with terms other than 15 years will be considered non-conforming and rejected from the RFP process. Sellers may provide terms of greater than 15 years within their Alternative Proposals.
- 4.3.3. DSM / EE Proposals shall have a minimum term of 5 years.

4.4. Energy Delivery (for PPA, TA, and OTH Proposals)
- 4.4.1. The Company and the Seller(s) will bilaterally establish and confirm a contract in PJM's InSchedule system (Contract) related to any agreement between the Company and the Seller.
- 4.4.2. The Contract will have the following key attributes:

[2] Environmental Attributes include, but are not limited to any associated renewable energy credits (RECs) and any other current or future environmental attributes, including any greenhouse gas emission reductions associated with the quantity contracted from a facility.

4.4.2.1. the "Schedule Confirmation Type" will be "Unilateral Buyer," such that the Company will have unilateral schedule confirmation rights for all schedules between the parties;

4.4.2.2. the "Sink" will be the Point of Delivery as defined in the table below;

Point of Delivery	
Pnode ID name	BIGSANDY
Pnode ID number	40243783
Location	Louisa, KY
County	Lawrence

4.4.2.3. the "Service Type" will be "Internal Bilateral Transaction".

4.5. Interconnection

4.5.1. The Point of Interconnection shall be the Facility's interconnection point with the PJM system.

4.5.2. All Proposals, at a minimum, must have completed the PJM Feasibility Study phase of the interconnection request process with PJM.

4.5.3. The Seller is responsible for all costs associated with transmission interconnections and system upgrades as required by PJM and the transmission operator.

4.5.4. The Seller is responsible for following the established PJM and transmission operator policies and procedures that are in effect regarding facility interconnection and operation associated with a utility's transmission system.

4.6. Proposal Types - the Company is interested in executing a contract ("Supply Agreement") from one or more of the following proposal types

4.6.1. Power Purchase Agreements ("PPA")

4.6.2. Tolling Agreements ("TA") – Seller pricing shall include the option of Seller providing the fuel, however, the Proposal shall also include an option where the Company will supply the fuel to the Resource.

4.6.3. Asset Purchase Agreements ("APA") – The Company will accept Proposals for assets that are currently in-service or will be in-service prior to June 1, 2015. The Company will not accept Proposals for partially built assets.

4.6.4. Other Proposals ("OTH") – Other Proposals are other power supplies or arrangements that do not fall into a PPA, TA, APA or DSM/EE category

4.6.5. Demand-side management ("DSM") or Cost-effective energy efficiency resources ("EE")

4.7. Pricing

4.7.1. Seller shall use Appendix A and any other attachments as needed to fully articulate the pricing of its Proposal.

4.7.2. Seller shall provide a summary of its essential terms and conditions associated with Seller's Proposal and pricing.

4.7.3. Prices must be firm, representing best and final data and quoted in U.S. dollars.

4.7.4. If pricing involves escalation or indexing, the details of such pricing, including the specific indices or escalation rates, must be included for evaluation.

4.7.5. Pricing to include all Ancillary Service costs, taxes and other fees necessary for delivery of the Energy to the Point of Delivery as applicable.

4.7.6. All costs associated with interconnections and transmission, including any system upgrades, as required by PJM up to the Point of Delivery shall be included in the Seller's pricing where appropriate under current FERC orders and rulings.

4.7.7. DSM / EE Proposals: Seller shall fully describe in Appendix D or other attachment the pricing associated with its Proposal.

4.8. Ancillary Services

4.8.1. Under a Supply Agreement, the Company prefers to have the unrestricted right to utilize all Ancillary Services associated with generation being offered by the Seller. In addition, the Company desires to have the unrestricted rights to any future Ancillary Services defined by the industry and capable of being provided by the generation capacity being offered.

4.8.2. The Seller shall describe the Ancillary Service capability of the Facility (Regulation, Synchronized Reserve, Black Start Service, DA Scheduling Reserve, etc.)

4.8.3. All Ancillary Services must be provided in accordance with the requirements of PJM and the transmission operator.

4.8.4. The Ancillary Services that would be available to the Company should not be limited to those defined in this section.

4.8.5. In the case where the Company purchases only part of the generation capacity from a unit, system or facility, then the Company desires to have unrestricted rights to Ancillary Services on a prorated basis.

4.9. DSM / EE Proposals must be from resources located within the Company's service area.

5. RFP Schedule

5.1. The following schedule and deadlines apply to this RFP. AEPSC and the Company reserve the right to revise this schedule at any time and at its sole discretion. Any revisions to the schedule will be posted to the RFP website.

5.2. All Proposals must be complete in all material respects and be received no later than 4 p.m. EST on Tuesday, June 11th at the AEPSC Columbus, OH location as defined in Section 6 of this RFP.

RFP Issued	Thursday, March 28, 2013
Confidentiality Agreements	Friday, May 24, 2013
Proposals Due Date	Tuesday, June 11, 2013
RFP Short-List Identified	Friday, July 12, 2013
Final Decision (Recommended)	tbd

6. Proposal Submittal

One hard copy and one electronic copy on CD of the Proposal(s) shall be submitted by the Proposal Due Date as outlined in Section 5 of this RFP to:

American Electric Power Service Corporation
Kentucky Power Company RFP Administrator
155 W. Nationwide Blvd
Columbus, OH 43215

7. Key Terms and Conditions

For a Supply Agreement, the Seller's Proposal should include, where applicable to the Seller's Proposal, the following terms and conditions, among other things:

7.1. Seller will guarantee all pricing and terms that affect pricing such as but not limited to heat rate, fuel cost, operations and maintenance costs, as applicable.

7.2. Pricing shall include all pricing and terms for Capacity, associated Energy, and Ancillary Services.

7.3. Seller will guarantee the annual and seasonal availability.

7.4. Seller will be responsible for any and all compliance related costs and fines (environmental, NERC, FERC, PJM, etc) incurred due to the non-compliance of the asset(s) designated to supply Capacity, Energy, and Ancillary Services to the Company.

7.5. Seller shall be responsible for ALL reporting requirements under NERC, PJM, etc.

7.6. Seller shall be responsible for offering Company's Capacity, Energy and Ancillary Services into the PJM market.

7.7. For the sale of generation capacity and energy to the Company under a Supply Agreement, the Seller would be responsible for obtaining all necessary permits and providing all credits and allowances needed to comply with the permit requirements for the life of the agreement, where permits, credits and allowances are applicable for the product being sold.

7.8. Failure to obtain or comply with any environmental permit or governmental consent would not excuse nonperformance by Seller.

7.9. Financial Capability

7.9.1. Should the Company elect to enter into a Supply Agreement with a Seller who fails to meet its obligations at any point in time, the Company's customers may be exposed to the risk of higher costs. Therefore, Sellers will be required to demonstrate, in a manner acceptable to the Company, the Seller's ability to meet all financial obligations to the Company throughout the applicable development, construction and operations phases for the term of the Supply Agreement. Under no circumstances, should the Company's customers be exposed to increased costs relative to the cost defined in an agreement between the Seller and the Company.

7.9.2. Upon execution of a Supply Agreement, Seller will be required to provide Security in the form of an irrevocable standby letter of credit (LOC), cash, or a corporate guaranty from a credit worthy entity, to protect the Company's customers in the event of default by the Seller. The amount and terms of the Security will be subject to approval by the Company based upon the Company's standards.

8. Proposal Content

8.1. The Seller is encouraged to provide as much information as possible to aid in the evaluation of the offer. Seller shall use Appendix C as a reference of the material required to be submitted with Seller's Proposal.

8.2. The Company reserves the right to request additional information. Any failures to supply the information requested will be taken into consideration relative to the Company's internal evaluation of cost, risk, and value.

8.3. The Seller should also provide any additional information the Seller deems necessary or useful to the Company in making a definitive and final evaluation of the benefits of the Seller's Proposal without further interaction between the Company and the Seller.

9. Treatment of Proposals

9.1. The Company reserves the right, without qualification, to select or reject any or all Proposals and to waive any formality, technicality, requirement, or irregularity in the Proposals received.

9.2. The completed Appendices and any supplement information submitted by the Seller may be utilized in any filings with regulatory agencies related to this RFP.

9.3. The Company reserves the right to solicit additional Proposals, to modify the RFP or request additional information, as necessary, to complete its evaluation of the Proposals received.

9.4. Sellers who submit Proposals do so without recourse against the Company for either rejection by the Company or failure to execute an agreement for purchase of Capacity and/or energy for any reason.

10. RFP Proposal Evaluation

10.1. Initial Review

Proposals will be thoroughly reviewed and assessed to ensure that each meets ALL applicable content requirements as described in Section 8 – Proposal Content. Proposals that meet all the requirements (as applicable) of the RFP shall be considered conforming. Proposals will be deemed non-conforming if they do not meet all the requirements specified in the RFP and will be rejected. During the initial screening process, the Company reserves the right, but is not obligated, to contact Seller(s) to clarify Proposal terms or to request additional information.

10.2. Evaluation

The Company will use a multi-stage evaluation process to review Proposals. The evaluation process followed will depend on the number and nature of the Proposals received. The evaluation process will consider all applicable factors including, but not limited to, the following to determine the reasonableness of the Proposal and the projected least, reasonable cost:

- Terms of the proposal
- Exceptions to the terms and conditions as outlined in this RFP
- Proposal Pricing
- Impact of Proposal to Company's balance sheet and credit rating
- Seller's creditworthiness and experience
- Proposed date of commercial operation (on-line)
- Status of interconnection process with PJM
- Project capacity
- Regulatory considerations
- Development status of Seller's generation facility including, but not limited to, site chosen, permitting, and transmission;

At the conclusion of the evaluation process, a Short-list of Proposals will be identified for further evaluation and comparison to the BS1 Conversion cost as referenced in the Background section (page 3) of this RFP. If the Company determines that a Proposal(s) is in the best interest of the Company and its customers, the Company will enter into negotiations which may lead to the execution of a definitive agreement(s). Sellers of Proposals that are not selected to

the Short-list will be notified that their Proposals were not selected to the Short-list.

10.3. Seller agrees to cooperate, to the fullest extent necessary, to obtain any and all State, Federal, or other regulatory approvals required for the effectiveness of a transaction.

10.4. Execution of any agreement shall also be dependent upon AEPSC and Kentucky Power Company obtaining sufficient assurance that the product purchased pursuant to the any agreement will be recognized for full recovery in the rates charged to its jurisdictional customers. The determination of what constitutes "sufficient assurance" shall be at the sole discretion and judgment of AEPSC and Kentucky Power Company.

11. Confidentiality

11.1. Attached as Appendix F is the Company's Form Confidentiality Agreement (CA). If Seller elects, they may complete the CA and forward electronically to 2013KentuckyPowerRFP@aep.com for execution by the Company.

11.2. AEPSC will take reasonable precautions and use reasonable efforts to maintain the confidentiality of all bids submitted. Sellers should clearly identify each page of information considered to be confidential or proprietary. AEPSC reserves the right to release any Proposals to agents or consultants for purposes of Proposal evaluation. AEPSC's disclosure policies and standards will automatically bind such agents or consultants. Regardless of the confidentiality, all such information may be subject to review by the appropriate state authority, or any other governmental authority or judicial body with jurisdiction relating to these matters and may be subject to legal discovery. Under such circumstances, AEPSC will make all reasonable efforts to protect Seller's confidential information.

12. Seller's Responsibilities

12.1. Proposals and bid pricing must be valid for at least 120 days after the Proposal Due Date, upon which time Proposals shall expire unless the Seller has been notified and selected as a Short-listed Seller or as a final award recipient.

12.2. It is the Seller's responsibility to submit all requested material by the deadlines specified in this RFP. The Seller should make its Proposal as comprehensive as possible so that the Company may make a definitive and final evaluation of the Proposal's benefits to its customers without further contact with the Seller.

12.3. Sellers are responsible for the timely completion of the project and are required to submit proof of their financial and technical wherewithal to ensure the successful completion of the project.

12.4. The Company shall not be liable for any expenses Sellers incur in connection with the preparation and submission of a Proposal and/or any subsequent negotiations. The Company will not reimburse Sellers for their expenses under any circumstances, regardless of whether the RFP process proceeds to a successful conclusion or is abandoned by the Company at its sole discretions.

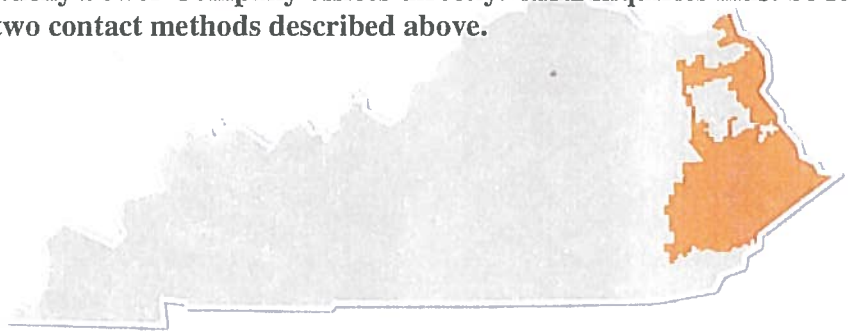
13. Contacts

All correspondences and questions regarding this RFP must be:

1. directed to the "Questions" section of the website established for this RFP (www.kentuckypower.com/go/rfp) or

2. by emailing 2013KentuckyPowerRFP@aep.com.

NOTE: Sellers or parties interested in participating in this RFP shall not contact the Kentucky Power Company offices directly. ALL inquiries must be submitted via the two contact methods described above.



Appendix A

Company Information

Seller (Company):		
Contact Name:		
Contact Title:		
Address:		
City:	State:	Zip Code:
Work Phone:	Cell Phone:	
Email Address:		

General Project Information

Project Name / Description:				
Resource Type : *(e.g. NG Simple Cycle, Combined Cycle, Pulverized Coal, CFB, Wind, Hydro,DSM, EE, etc.):*				
Fuel Type (Primary / Secondary) :				
Project Location:				
Estimated On-line Date:		Expected Annual Production (MWh):		
Project Capacity Values, MW	Nameplate Rating	Winter Rating	Summer Rating	PJM Capacity Value
Is proposed MW the entire facility capacity (Y / N); If no, then how large is the entire facility (MW)?				

PJM Interconnection Summary

Feasibility Study Complete (Y/N):	PJM Queue #:
Interconnecting Utility / Location:	

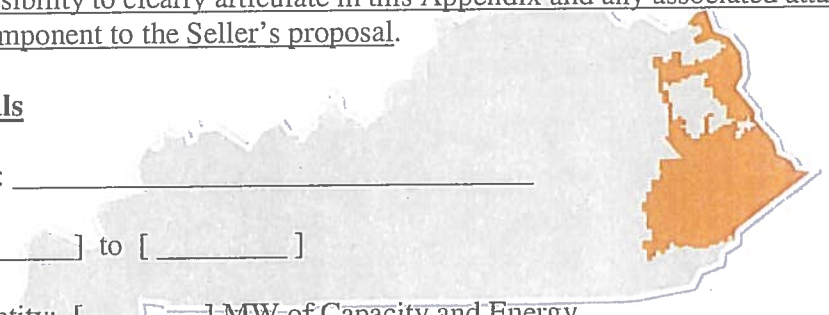
Substation:	Interconnection Voltage:
PJM Interconnection Status (describe):	

Proposal Type (check one)				
PPA	TA	OTH	DSM	EE

Pricing

Sellers shall provide a detailed written description of all pricing formulas including a detailed description of all sub-components. As noted in the RFP, the Company requires a Base Proposal, however the Company will allow Sellers to include up to three other Alternatives in their Proposal. If Seller elects to offer Alternatives, then Seller shall submit separate Proposal Pricing Sheets for each Alternative.

The following requirements for each of the Proposal Types shall be used as a guide. It is the Sellers responsibility to clearly articulate in this Appendix and any associated attachments the pricing component to the Seller's proposal.



PPA Proposals

Project Name: _____

Term: [_____] to [_____]

Contract Quantity: [_____] MW of Capacity and Energy

Capacity Charge: [_____] $ / kw-month, define any annual price escalation

Heat Rate: [_____] Btu / kWh, provide heat rates at all dispatch points

Variable O&M: [_____] $ / MWh, define any annual price escalation

Fuel Cost: (Fuel Cost Index Name) or [ ] $ / MMBtu, provide a fuel price index and any adders, escalation or adjustments to the index to be used to price fuel delivered to the Facility, or provide the actual cost of fuel delivered to the facility.

Energy Payment: [_____] $ / MWh, define any annual price escalation

Start-up Payment: [_____]: $ / start

Other Operating Related Charges: [Define cost and parameters for charges]

TA Proposals

Project Name: _____

Term: [_____] to [_____]

Contract Quantity: [_____] MW of Capacity and Energy

Capacity Charge: [_____] $ / kw-month, define any annual price escalation

Heat Rate: [_____] Btu / kWh, provide heat rates at all dispatch points

Variable O&M: [_____] $ / MWh, define any annual price escalation

Fuel Cost: (Fuel Index Name) or [ ] $ / MMBtu, provide a fuel price index and any adders, escalation or adjustments to the index to be used to price fuel delivered to the Facility, or provide the actual cost of fuel delivered to the Facility. For Tolling Agreements, Kentucky Power Company reserves the right to purchase and supply the fuel to the Facility itself.

Start-up Payment: [_____]: $ / start

Other Operating Related Charges: [Define cost and parameters for charges]

Asset Purchase Agreements

Project Name:

Nameplate Capacity:

Sale Price, $M: [ ]

Proposed Asset Transfer Date: [ ]

Other Proposals

For "Pricing Terms" for all non-PPA proposals, Bidder shall provide these terms on a separate sheet providing a complete detail of such terms.

Appendix B

Operating Characteristics

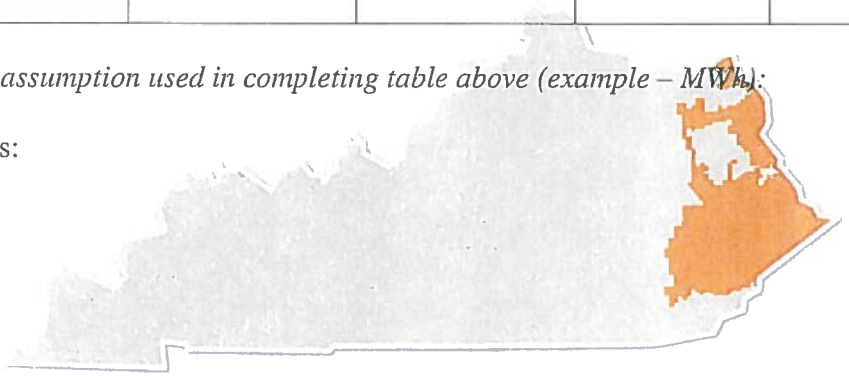
Heat Rate – Summer (Btu /kwh at all loading points allowed by the Proposal)	
Heat Rate – Winter (Btu /kwh at all loading points allowed by the Proposal)	
Summer Capacity – Max (MW)	
Summer Capacity – Min (MW) or at all loading points allowed by the Proposal	
Winter Capacity – Max (MW)	
Winter Capacity – Min (MW) or at all load points allowed by the Proposal	
Output (MW) in 10 minutes from Start	
Ramp Rate (MW / min) – Normal	
Ramp Rate (MW / min) – Maximum	
Start-up time (hot) to minimum capability	
Start-up time (hot) to maximum capability	
Start-up time (warm) to minimum capability	
Start-up time (warm) to maximum capability	
Start-up time (cold) to minimum capability	
Start-up time (cold) to maximum capability	
Auxiliary Load (at all loading points allowed by the Proposal)	
Minimum run time	
Minimum down-time	
Forced Outage Rate	
Scheduled Outage Rate	
Annual Availability (%)	
Production Constraints:	
Ancillary Services (describe):	

Air Emissions

Emissions	Primary Fuel		Secondary Fuel	
	Lb / MWh	Tons / Year	Lb / MWh	Tons / Year
Sulfur Dioxide				
Nitrogen Oxide				
Carbon Monoxide				
Carbon Dioxide				
Mercury				
Particulates (PM / PM 10)				
Volatile Organic Compounds				

Please note assumption used in completing table above (example – MWh):

Assumptions:



Appendix C

Proposal Requirements

1. An executive summary of the bid's characteristics and timeline, including any unique aspects and benefits.
2. Seller shall complete Appendix A as applicable.
3. Seller shall complete Appendix B as applicable.
4. Sellers with DSM/EE Proposals shall complete Appendix D. DSM/EE Proposal documents shall be limited to 30 pages. Additional information may be submitted electronically (eg. CD, memory stick).
5. Seller shall fully describe any exceptions it takes towards any terms and conditions as described in Section 7 or other parts of this RFP.
6. Experience and References
    a. Provide a general description of the Seller's background and experience in utility scale power projects similar to its proposal, including any affiliated companies, holding companies, subsidiaries or predecessor companies presently or in the past engaged in developing energy power supply projects.
    b. Provide three (3) or more references from projects where the bidder, or any of its affiliates, has completed the development and construction of a power project similar to the one proposed to the Companies. If the bidder has fewer than three projects, it shall provide as many references as possible.
7. Seller shall provide a comprehensive narrative of the development status of any new generation project intended to be used to meet Seller's obligations to the Company. Seller's narrative shall include the following.
    a. Key project participants including owners, operators, engineer / contractors, fuel suppliers.
    b. Status of engineering and design work.
    c. A comprehensive development and construction schedule.
    d. A listing of all required permits and governmental approvals and their status.
    e. A listing of all required electric interconnection and or transmission agreements and their status.
    f. A financing plan.
    g. A summary of key contracts (fuel, construction, major equipment) to the extent that they exist.
8. Seller shall provide copies of all PJM Interconnection studies. In addition, Seller shall provide the following:

a. Impedance of the generator step-up transformer.

b. Transient and sub-transient characteristics of the generator.

9. Project Site

a. Seller shall provide proof or status of ownership or control of site.

b. Seller shall provide a summary describing whether the site has been assessed for environmental contamination, has any known environmental issues, and if a Phase 1 environmental assessment has been completed.

c. Has the site been assessed for environmental contamination? Describe any known environmental issues?

d. Describe status of all required permits.

e. If the plant site is subject to site approval by a governmental authority, provide a description of the approval status including a copy of the application. If approval has been granted, provide a copy of the approval.

10. Legal Proceedings

a. List all lawsuits, regulatory proceedings, or arbitration in which the bidder or its affiliates or predecessors have been or are engaged that could affect bidder's performance of its bid.

b. Identify the parties involved in such lawsuits, proceedings, or arbitration, and the final resolution or present status of such matters.

11. Technology / Equipment

a. Technology employed (combined cycle, pulverized coal, CFB, etc.)

b. Provide details regarding the technology selected, major equipment manufacturer identified, status of equipment purchases.

12. Existing Facilities (including **Asset Purchase Agreements**) - For existing facilities, at a minimum, provide the following information for each of the last 5 years of operating history;

a. Energy generated

b. Capacity factor

c. Number of start-ups

d. Average heat rate

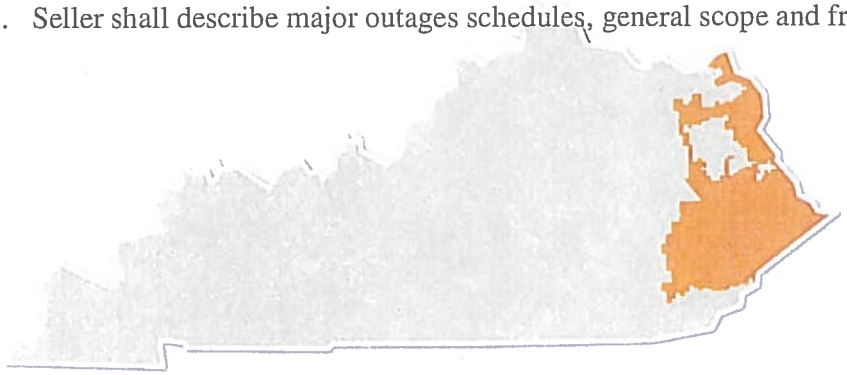
e. On-Peak availability

f. Fixed O&M Costs

g. Variable O&M Costs

h. Capital expenditures

13. Sellers of assets (Asset Purchase Agreements) shall provide a description of the facility's major equipment
14. Seller shall provide a copy of air permit or permit application(s) if available.
15. Seller shall provide a summary of the timing and status of all permit applications including water withdrawal, wastewater disposal, fuel byproducts handling and disposal, etc.
16. Seller shall provide its operations plan – describe the entity who will be performing operations and maintenance of the facility
17. Seller shall provide its fuel supply plan.
18. Subsidies – Bidders must indicate if their proposal is dependent upon any existing state or federal tax credit or grant program and expiration of said program.
19. Maintenance Outages
    a. Seller shall describe the required annual (routine) maintenance outage schedule and associated tasks.
    b. Seller shall describe major outages schedules, general scope and frequency



Appendix D

DSM / EE - Proposal Requirements

Company Information

Seller (Company):		
Contact Name:		
Contact Title:		
Address:		
City:	State:	Zip Code:
Work Phone:	Cell Phone:	
Email Address:		

Seller's with DSM and EE Proposals shall fully describe below or on a separate attachment the resource being offered, size/quantity, term, pricing, and essential terms and conditions associated with their offering. DSM/EE Proposal documents shall be limited to 30 pages. Additional information may be submitted electronically (eg. CD, memory stick).

General Project Information

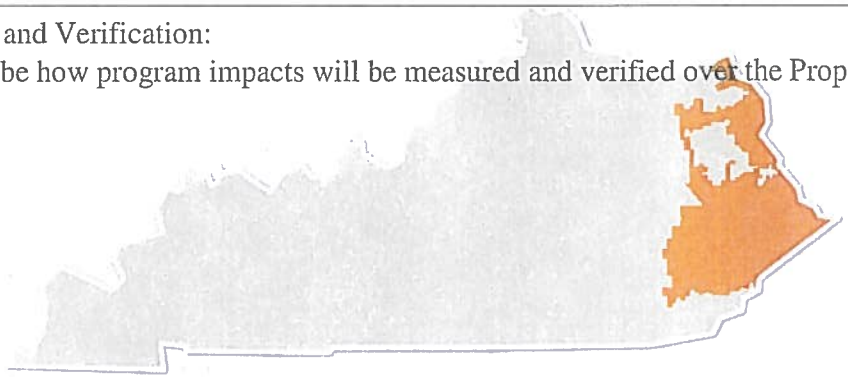
Project Name / Description:

Describe End-uses Impacts:

- Provide monthly projected peak and energy impacts over the Proposal Term
- Provide hourly reduction load shapes over the Proposal Term by end-use and aggregated for the Proposal
- Provide measure life and any degradation in peak and energy impacts over the Proposal Term

Measurement and Verification:

- Describe how program impacts will be measured and verified over the Proposal Term



Appendix E

Bidder's Credit-Related Information

Full Legal Name of the Bidder:
Type of Organization (Corporation, Partnership, etc.):
Bidder's % Ownership in Proposed Project:
Full Legal Name(s) of Parent Corporation: 1. 2. 3.
Entity Providing Credit Support on Behalf of Bidder (if applicable): Name: Address: City: Zip Code:
Type of Relationship:
Current Senior Unsecured Debt Rating: 1. S&P: 2. Moodys:
Bank References & Name of Institution:
Bank Contact: Name: Title: Address: City: Zip Code: Phone Number:
Legal Proceedings: As a separate attachment, please list all lawsuits, regulatory proceedings, or arbitration in which the Bidder or its affiliates or predecessors have been or are engaged that could affect the Bidder's performance of its bid. Identify the parties involved in such lawsuits, proceedings, or arbitration, and the final resolution or present status of such matters.
Financial Statements: Please provide copies of the Annual Reports for the three most recent fiscal years and quarterly reports for the most recent quarter ended, if available. If available electronically, please provide link:

Appendix F

Mutual Confidentiality Agreement

Email to: 2013KentuckyPowerRFP@aep.com
American Electric Power Service Corporation
155 West Nationwide Boulevard
Suite 500
Columbus, OH 43215
Fax: (614) 583-1611

Due: Friday, May 24, 2013

This Mutual Confidentiality Agreement ("Agreement") dated as of _____, 2013 ("Effective Date") is made and entered into by and between American Electric Power Service Corporation ("AEPSC"), as agent for Kentucky Power Company, and *insert full legal name*, a(n) *insert state of formation insert type of company* ("Bidder").

Recitals:

I. Bidder is or is considering submitting a proposal (the "Proposal") in response to a Request for Proposals (the "RFP") issued by AEPSC for energy, capacity, and ancillary services as described in the RFP. If submitted, the Proposal will become the property of AEPSC and shall be held confidential under terms of the RFP.

II. It may become desirable that AEPSC and Bidder exchange other confidential information pursuant to questions, responses or other communications that are not contained in the Proposal and which the parties desire to protect as confidential.

III. In addition, if the Proposal, if submitted, is selected by AEPSC, then Bidder and AEPSC will negotiate about a proposed agreement between AEPSC and Bidder to implement the Proposal (the "Proposed Agreement"). Bidder and AEPSC want to keep all negotiations concerning the Proposed Agreement, including the Proposed Agreement itself and all drafts of the Proposed Agreement, confidential.

IV. The parties are willing to exchange such confidential information pursuant to the terms of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

Section 1. Definitions.

1.1. (a) "Confidential Information" means any information that is disclosed by the Disclosing Party to the Receiving Party or its Representatives in connection with the RFP or any Proposed Agreement (collectively, the "Transaction"), whether before or after the date hereof and irrespective of the format in which the information is provided. For avoidance of doubt, "Confidential Information" includes:

(i) Written information or machine-readable data, including questions, responses or communications in connection with AEPSC's RFP or any Proposed Agreement, notes, reports, assessments, specifications, drawings, financial statements and projections, software and databases, customer information, sales and marketing strategies, and any other written information or machine-readable data;

(ii) Orally conveyed information, including but not limited to demonstrations that are directly related to written or other tangible Confidential Information;

(iii) Any hardware, including but not limited to samples, devices and any other physical embodiments delivered to the Receiving Party;

(iv) Any Evaluation Material; or

(v) The existence of this Agreement, the terms of this Agreement and any Proposed Agreement, including all drafts of the Proposed Agreement and all negotiations concerning the Proposed Agreement, that may arise stemming from the Bidder's Proposal.

(b) "Confidential Information" does not include information which:

(i) is, or subsequent to disclosure becomes, part of the public domain through no fault of the Receiving Party;

(ii) is lawfully disclosed to the Receiving Party by a third party which, to the knowledge of the Receiving Party, does not have a confidentiality obligation to the Disclosing Party;

(iii) was lawfully in the possession of the Receiving Party prior to disclosure by the Disclosing Party; or

(iv) is lawfully and independently developed by the Receiving Party without use of the Confidential Information disclosed by the Disclosing Party.

1.2. "Disclosing Party" means the party disclosing Confidential Information.

1.3. "Evaluation Material" means notes, reports or other documents which reflect, interpret, evaluate, include or are derived from the Confidential Information.

1.4. "Receiving Party" means the party receiving Confidential Information.

1.5. "Representatives" means a party's employees, officers, directors, attorneys, accountants, consultants, advisors and agents (including potential lenders, equity partners, underwriters, or other parties involved in the Transaction for the party), and the party's affiliates and the employees, officers, directors, attorneys, accountants, consultants, advisors and agents thereof.

Section 2. Confidentiality. Except as provided in Section 5, the parties hereby agree that the Confidential Information will be kept confidential during the term of this Agreement. The parties also agree that without the prior written consent of the Disclosing Party, the Confidential Information will not be disclosed by the Receiving Party, in whole or in part, to any other person except as provided herein. Each party shall use the same care in protecting the other's Confidential Information as it uses to protect its own confidential information, provided that neither party shall use less than reasonable efforts to protect the other's Confidential Information. Notwithstanding the foregoing, the Receiving Party may (a) disclose Confidential Information to its Representatives whose access is necessary to conduct the evaluations and negotiations in connection with the Transaction, or for supervisory, regulatory or similar purposes, and who have been informed of and have agreed to abide by the confidentiality restrictions contained in this Agreement and (b) make a limited number of copies of the Confidential Information in order for the Receiving Party to adequately use the Confidential Information subject to the terms and conditions of this Agreement. Each party agrees to be responsible for the actions, uses and disclosures of any of its Representatives in accordance with the terms and restrictions of this Agreement.

Section 3. Ownership and Use of Confidential Information. All Confidential Information (except Evaluation Material) shall remain the property of the Disclosing Party. No license or other rights under any patents, trademarks, copyrights or other proprietary rights is granted or implied by the disclosure of the Confidential Information. Neither party shall use the Confidential Information for any purpose other than for evaluation of and negotiations relating to the Transaction.

Section 4. Disposition of Confidential Information. The Receiving Party, upon written request from the Disclosing Party, shall promptly return or destroy all Confidential Information in its possession; provided, however, with respect to Evaluation Materials, the Receiving Party may at its discretion destroy such Evaluation Material. If requested by the Disclosing Party, the Receiving Party shall provide the Disclosing Party with a certification that all Confidential Information and Evaluation Material has either been returned or destroyed, as appropriate. Notwithstanding the foregoing, the Receiving Party may retain one copy of the Confidential Information solely for archival purposes and for the purpose of demonstrating compliance with this Agreement. The return or destruction of the

Confidential Information shall not extinguish any rights or obligations under this Agreement with respect to the Confidential Information.

Section 5. Legally Required Disclosures. If the Receiving Party or its Representatives become subject to a bona fide requirement or request by any regulatory, governmental, judicial or supervisory authority (by subpoena, oral deposition, interrogatories, request for production of documents, civil investigative demand, administrative order or otherwise), to disclose any of the Confidential Information, or if such disclosure is necessary in order to obtain or maintain regulatory or governmental approvals, applications or exemptions, the Receiving Party will provide the Disclosing Party with as much advance notice as and to the extent as permitted and practicable to afford the opportunity to seek an appropriate protective order or other appropriate remedy to prevent the disclosure. The Receiving Party or any of its Representatives being compelled to disclose such Confidential Information will reasonably cooperate with the Disclosing Party, at its expense, to enable the Disclosing Party to obtain a protective order or other reliable assurance that confidential treatment will be accorded the same (e.g. confidentiality agreement). If such protective order or other appropriate remedy (e.g. confidentiality agreement) is not obtained, the Receiving Party or any of its Representatives being compelled to disclose such Confidential Information may disclose the information without liability hereunder provided that the party may only furnish that portion of the Confidential Information which is legally required or necessary.

Section 6. Term. If the Bidder's Proposal and/or related negotiations do not result in a final agreement, then this Agreement is effective for two (2) years from the Effective Date stated above. If the negotiations result in a final agreement, then this Agreement is effective until two (2) years after the termination of the final agreement.

Section 7. No Warranties. The Disclosing Party makes no representations or warranties as to the reliability, accuracy or completeness of the Confidential Information. The Disclosing Party shall not be subject to any liability to the Receiving Party based on the Receiving Party's use of the Confidential Information.

Section 8. Remedies. The parties acknowledge that improper or unauthorized use or disclosure of Confidential Information could cause irreparable harm to the Disclosing Party and that monetary damages would not be an adequate remedy for a breach of this Agreement. In the event of any breach or threatened breach of this Agreement, the non-breaching party shall be entitled to pursue injunctive and other equitable relief, and the breaching party agrees to waive any requirement for the posting of a bond in connection with such remedy. Such injunctive and equitable relief shall not be deemed to be the exclusive remedy for a breach of this Agreement, but shall be in addition to all other available remedies. In no event shall either party be liable to the other for any incidental, indirect, special, punitive or consequential damages (including without limitation damages for lost profits).

Section 9. Relationship of Parties. Neither party shall have any obligation to commence or continue discussions or negotiations, to exchange any Confidential Information, to reach or execute any agreement with the other party, to refrain from engaging at any time in any business whatsoever, or to refrain from entering into or continuing any discussions, negotiations or agreements at any time with any third party, until each party executes a definitive agreement. Until such definitive agreement is executed, neither party shall have any liability to the other party with respect to the Transaction except as set forth in this Agreement. Neither party shall have any liability to the other party in the event that, for any reason whatsoever, no such definitive agreement is executed.

Section 10. General.

10.1 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Kentucky.

10.2 Entire Agreement. This Agreement constitutes the entire Agreement between the parties, supersedes any prior understandings or representations relating to the confidential treatment of the Confidential Information, and shall not be modified except by a written agreement signed by both parties.

10.3 Assignability. This Agreement may not be assigned by either party without the prior written consent of the other party; provided, however, that AEPSC may assign this Agreement to one or more of its affiliated companies.

10.4 Severability. All provisions of this Agreement are severable, and the unenforceability of any of the provisions of this Agreement shall not affect the validity or enforceability of the remaining provisions of this Agreement.

10.5 No Waiver. Failure of either party to insist upon strict performance of any of the terms and conditions shall not be deemed to be a waiver of those terms and conditions.

10.6 Counterparts and Faxed Signatures. This Agreement may be executed in counterparts, and in the absence of an original signature, faxed signatures will be considered the equivalent of an original signature.

10.7 Notices. Notices shall be in writing and shall be sent to the addresses listed below, either by personal delivery, by the U.S. Mail, overnight mail, fax or other similar means. All notices shall be effective upon receipt.

The parties have signed this Agreement effective as of the later signature date set forth below.

SIGNATURES ON FOLLOWING PAGE

The parties have signed this Agreement effective as of the later signature date set forth below.

American Electric Power Service Corporation, as agent for Kentucky Power Company

By:_____

Print Name:_____

Title: _____

Date:_____

[BIDDER: insert full legal name]

By:_____

Print Name:_____

Title:_____

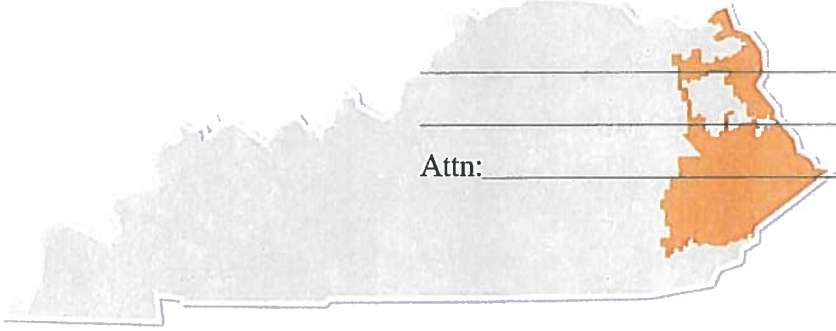
Date:_____

Bidder Address:

_____

_____

Attn:_____



CONFIDENTIAL EXHIBIT JAK-2S

CONFIDENTIAL IN ITS ENTIRETY

Long Term Firm (LTF) Transmission Service Requests - Quick Guide

Note: This process is modeling a typical transmission service request flow and can vary based on actual requests. This Quick Guide is for reference only and is not intended to supersede any PJM Tariff, Manual, or Business Practice.

1. Customer requests service on OASIS. This will be either Point-to-Point (year-FIRM) or Network Designated (year-NETWK_EXT_DESIGNATED). FERC Order 890 requires the term at least 5 years for rollover/renewal rights.
   - P-to-P is used for importing/exporting between a Point of Receipt (POR) and a Point of Delivery (POD).
   - Network is used for Designated Network Resources (DNR) or Network Native Load (NNL) or RPM capacity.
2. PJM has 30 days from the queue date of the request to send an Initial Study Agreement to the customer.
3. Customer has 15 days to execute the Initial Study Agreement and return to PJM.
4. PJM has 60 days to perform the Initial Study. The cost of the study is estimated at $5K, and usually billed after the study.
   - The Initial Study: ATC screening, Full Network Analysis, ASTFC screening, Load Deliverability, and Generator Deliverability.
5. If the Initial Study results indicate that a further impact study is needed, PJM sends out a System Impact Study Agreement (SISA).
6. Customer has 30 days to execute the System Impact Study Agreement and return to PJM, along with a $50K deposit.
   - PJM performs the System Impact Study based on the tariff deliverable dates. (Section 205.3 Timing of Studies)*

Queue	Customer submits Request		PJM System Impact Study	
	START	END	START	DELIVERABLE
1	May 1, Y1	Oct 31, Y1	Jun 1, Y2	Sep 29, Y2
2	Nov 1, Y1	Apr 30, Y2	Dec 1, Y2	Mar 31, Y3
** Effective 5/1/2012 – Docket #: ER12-1177-000*				

7. If the System Impact Study indicates that upgrades are needed, PJM sends out a Facilities Study Agreement (FSA).
8. Customer has 30 days to execute the Facilities Study Agreement and return to PJM, along with an estimated deposit of $15K for 2MW and under, $50K for between 2MW and 20MW, and $100K for 20MW and above. If the estimated amount of the Facilities Study cost for the first three months exceeds $100K, then that amount will be used as the estimated cost.
9. PJM performs the Facilities Study. This is typically done in, but not limited to 180 days.
   - The Facilities Study: Attachment Facilities, Local Upgrades, Network Upgrades, and "SCHEDULE OF WORK".
10. PJM sends out the Facility Study results and an Upgrade Construction Service Agreement (UCSA).
11. Customer has 60 days to execute the Upgrade Construction Service Agreement.

Manual 02: Transmission Service Request (http://www.pjm.com/~/media/documents/manuals/m02.ashx)
Manual 14A: Generation and Transmission Interconnection Process (http://www.pjm.com/~/media/documents/manuals/m14a.ashx)

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For: (1) A Certificate Of Public Convenience And Necessity Authorizing The Transfer To The Company Of An Undivided Fifty Percent Interest In The Mitchell Generating Station And Associated Assets; (2) Approval Of The Assumption By Kentucky Power Company Of Certain Liabilities In Connection With The Transfer Of The Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral Of Costs Incurred In Connection With The Company's Efforts To Meet Federal Clean Air Act And Related Requirements; (5) Approval Of The Renewable Energy Purchase Agreement For Biomass Energy Resources Between The Company And ecoPower Generation-Hazard LLC; And (6) For All Other Required Approvals And Relief	)	Case No. 2012-00578

SUPPLEMENTAL TESTIMONY OF

RICHARD E. MUNCZINSKI

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Richard E. Munczinski, being duly sworn, deposes and says he is Senior Vice President of Regulatory Services for American Electric Power Service Corporation 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.

Richard E. Munczinski

STATE OF OHIO)
) 2012-0058
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Richard E. Munczinski, this the 20th day of June, 2013.

Notary Public

JAMES R. BACHA
ATTORNEY AT LAW
NOTARY PUBLIC - STATE OF OHIO
MY COMMISSION HAS NO EXPIRATION DATE
SECTION 147.03 R. C.

My Commission Expires: _____

SUPPLEMENTAL TESTIMONY OF
RICHARD E. MUNCZINSKI, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

CASE NO. 2012-00578

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SUPPLEMENTALTESTIMONY OF
RICHARD E. MUNCZINSKI, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

I. INTRODUCTION

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Richard E. Munczinski and my business address is One 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), a unit of American Electric Power (AEP). My title is Senior Vice President – Regulatory Services.

Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT – REGULATORY SERVICES?

A. I am directly responsible for overseeing AEP's regulatory activities before eleven state regulatory commissions and the Federal Energy Regulatory Commission (FERC). I am AEP's Chief North American Reliability Corporation (NERC) Compliance Officer. In this role, I oversee the development and implementation of strategic policy within AEP to ensure compliance with NERC reliability standards for the AEP system. Additionally, I oversee AEP's participation in regional transmission organization (RTOs). Lastly, I spend considerable time with both Wall Street analysts that follow AEP stock, and investors that own AEP stock.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I earned a bachelor of engineering degree in electrical engineering and a master's degree in management science from Stevens Institute of Technology in Hoboken, New Jersey. I am a member of the Institute of Electrical and Electronics Engineers.

Prior to joining AEP, I was an electrical engineer for Ebasco Services Inc., New York. I joined AEP in 1978 in the Project Engineering department and transferred to Corporate Planning and Budgeting in 1982. I became Director of Rate Case Management in 1992 and Vice President of Regulatory Services in 1996 leading the regulatory approval process for the merger with Central and South West Corporation (CSW). I was named Senior Vice President - Corporate Planning and Budgeting in 1998 and Senior Vice President - Shared Services in 2008. I have served in my current role as Senior Vice President-Regulatory Services of AEP since January 2010.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE A REGULATORY AGENCY?

A. I have testified or submitted testimony before the regulatory commissions in the states of Kentucky, Ohio, Virginia, West Virginia, Michigan, Arkansas, Indiana, Louisiana, Oklahoma, Texas and before the Federal Energy Regulatory Commission.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the Company's response to the Commission's May 28, 2013 Order by providing context for the Company's analysis of the bids it received in response to its March 28, 2013 Request for Proposals (RFP), especially as that analysis relates to the Company's proposed transfer of a 50% interest in the Mitchell plant. In addition, I discuss how an owned asset solution like the Mitchell transfer

provides significant advantages over a market based solution or a RFP from alternative resources. I'll also address the risks of going away from the traditional regulatory model and why the Company doesn't recommend that approach. Specifically, I'll discuss some of the other market failures that have occurred in other states that have made moves away from the traditional regulatory model.

III. BENEFITS OF OWNED ASSETS TO KENTUCKY POWER'S CUSTOMERS VERSUS A MARKET BASED SOLUTION

Q. CAN YOU DESCRIBE SOME OF THE BENEFITS TO KENTUCKY POWER'S CUSTOMERS OF AN OWNED ASSET SOLUTION TO MEET THEIR GENERATION NEEDS, SPECIFICALLY THE TRANSFER OF THE MITCHELL UNITS.

A. The transfer of the Mitchell units to Kentucky Power will maintain the same general regulatory structure that has benefited Kentucky Power and its customers for many years. Under this structure the Company provides generation service, along with distribution and transmission service, to its customers under a cost based approach that allows the Company an opportunity to recover a return on and of its investments, as well as recovery of on-going costs like fuel, operations and maintenance expenses (O&M) and taxes. This structure produces stable and predictable rates for customers and a stable source of revenues for the Company. This stable source of revenues allows the Company to finance long-term investments like the Mitchell units at a low cost. This low cost financing directly benefits customers through lower rates.

Under this structure base rates are fixed between rate cases, and fuel rates vary based upon the actual cost of the fuel or purchased power used to meet the needs of full

requirements customers. At times when the market price of energy is below the cost of producing the same power from an owned asset, the Company procures power from the market and provides the savings to customers. At times when the market price of energy is above the cost of producing the same power from an owned asset, the Company procures power from the owned asset at cost and provides the savings to customers. When energy markets are high, the customer is protected. When energy markets are low, the customer can benefit – without facing the risks of the market.

Q. CAN YOU DESCRIBE SOME OF THE COSTS OR RISKS TO KENTUCKY POWER'S CUSTOMERS IF KENTUCKY POWER WERE TO RELY UPON THE MARKET TO ACQUIRE APPROXIMATELY 800 MW OF GENERATION TO MEET THE NEEDS OF ITS CUSTOMERS?

A. The most significant cost or risk to Kentucky Power's customers that would result from a reliance upon the market to largely meet their generation needs, is the loss of stability and predictability. Price stability and predictability are important to customers large and small. Electricity is a necessity of modern life and a great value. A typical residential customer of Kentucky Power currently pays a monthly bill of approximately $120. The value is apparent when you compare it to what those same customers pay for cable, phone service or gasoline to fuel their cars. It's also important to recognize that the regulated owned asset model has resulted in low electricity costs for customers in Kentucky. The end use rates for electricity that customers paid in Kentucky were the third lowest in the country and 27% below the national average[1] – this is an enviable position to be in. While it may be appealing to some to seek a market solution to save a

[1] U.S. Energy Information Administration Electric Power Monthly with Data for April 2013, Table 5.6.A, issued June 2013.

few dollars in the near term (a premise I am not sure is accurate), the cost to customers in the form of increased volatility and higher costs in the long-term clearly outweighs any perceived benefits. This is analogous to the situation where an individual is faced with two options to finance the purchase of a home. The first option is a 30-year fixed rate mortgage at 4.25% and the second option is a 5-year adjustable rate mortgage at 3.50% with a 30-year amortization schedule. While the 5-year adjustable rate mortgage produces savings to the home owner in the early years, it results in significant risks to the home owner when the rate adjusts at the end of the 5-year period. In some cases that adjustment results in a monthly payment that is unaffordable for the home owner and they are forced to sell the home or go into foreclosure. The Mitchell transfer is comparable to the 30-year fixed rate mortgage and the market solution is comparable to the 5-year adjustable rate mortgage. The question is: Should the future electric rates of the customers of Kentucky Power be put at risk in the hopes that market prices for power remain low well into the future – in this case over 20 years into the future? I assert that the answer to that question is a resounding "No" – the Mitchell transfer provides the least cost alternative to customers based upon the Company's analysis and has the added benefit of producing more stable rates than a market alternative.

Kentucky Power is a member of PJM. The two key components of generation pricing in the PJM market are capacity and energy. In the PJM market, capacity prices change annually and energy prices change constantly – both are extremely volatile. As shown below in Table 1, the PJM Reliability Pricing Model (RPM) market for capacity has existed since 2007 and has seen annual swings exceeding 350%. On average, the capacity price has changed by 96% annually over this 10 year period. This is the type of

volatility that our customers – residential, commercial and industrial alike – have difficulty planning for and including in their budgets from year to year. The viability of the PJM capacity market itself is in jeopardy as member utilities, the PJM Market Monitor and state commissions question its effectiveness. In the *Quarterly State of the Market Report for PJM: January through March* (2013) the PJM Market Monitor stated "there are several features of the RPM design which threaten competitive outcomes. These include the 2.5 percent reduction in demand in Base Residual Auctions and the definition of DR [Demand Response] which permits inferior products to substitute for capacity."

The Mitchell transfer provides a long-term solution that mitigates this volatility for customers.

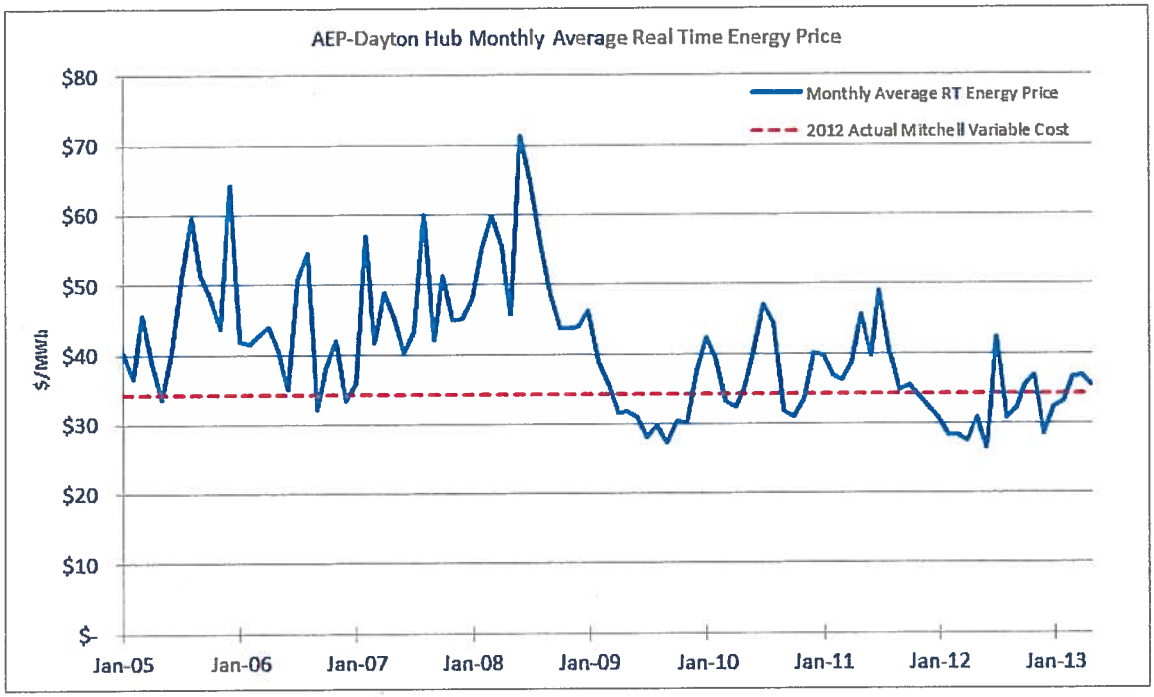
Table 1: PJM RPM BRA Clearing Prices

PJM Planning Year	RPM BRA Clearing ($/MW-day)	Year over Year Change (%)
2007/2008	40.80	N/A
2008/2009	111.92	174%
2009/2010	102.04	-9%
2010/2011	174.29	71%
2011/2012	110.00	-37%
2012/2013	16.46	-85%
2013/2014	27.73	68%
2014/2015	125.99	354%
2015/2016	136.00	8%
2016/2017	59.37	-56%

On top of the volatility of the capacity market there is also significant volatility and uncertainty in the energy market. PJM's energy markets vary due to a variety of factors including short and long-term changes in the economy, swings in natural gas

prices, and weather. Average monthly prices of energy in the PJM market have increased by as much as 60% in a single month as recently as the summer of 2012. Figure 1 below provides a very clear example of the significant volatility that exists in the PJM energy market.

Figure 1: Historical PJM Energy Prices



Volatility is bad for customers, investors, and the Company. When market prices rise dramatically over a short period of time, which with history as our guide they are bound too, not only will customers feel financial pressure but the Company will as well. Volatility also may make the area served by the utility less attractive to businesses seeking to locate there. In the face of high market prices, regulatory commissions have looked to the incumbent utilities to help mitigate the financial implications for customers and the economy through the use of deferrals or rate caps. We've seen this in California where Southern California Edison and Pacific Gas and Electric faced bankruptcy as a result of not being able to pass all of their market costs on to consumers. We've also

seen this in Ohio where a Kentucky Power affiliate, Ohio Power Company, was required to defer over half a billion dollars over three years to protect customers from the high market prices that were expected at the time (2009-2011).

Q. DO YOU BELIEVE THAT THE CURRENT PRICES IN THE CAPACITY MARKET REPRESENT A REASONABLE VIEW OF CAPACITY PRICES IN THE LONG-TERM?

A. No. The current capacity prices in the PJM RPM market do not reflect the long-term cost of capacity. It is important to note that the PJM RPM market is not a true market and instead is an administrative process. The capacity price determined in the PJM RPM Base Residual Auction (BRA) is not the point at which willing buyers and sellers of capacity agree to transact. Instead, PJM administratively develops a demand forecast and all capacity resources in PJM are required to bid their capacity into the auction at capped prices. In many cases, for existing resources, this capped price is zero. Clearly, an auction process that requires capacity resources to be bid in at a value of zero is not a true market.

Another example of the flawed PJM capacity market is the demand response component which contributes to the RPM price. The FERC has found examples of manipulation of the Demand Response Program. As an example, in June 2013, the FERC approved a Stipulation and Consent Agreement with Enerwise Global Technologies including a civil penalty of $780,000. The Order states "Enforcement further determined that Enerwise in May 2009 also instructed MSA [Maryland Stadium Authority] to increase its stadium load prior to the test event to portray a larger load reduction than actually occurred. MSA increasing its load prior to the test event allowed

Enerwise to demonstrate a larger load reduction for MSA using an available PJM baseline methodology that calculated a customer's load reduction based on the difference between the metered load during the two hours prior to a load reduction event and the metered load during the event… Enerwise knew MSA's registration for 4.6 MW of load reduction was based on operation of an MSA ice storage facility and on MSA's two 1.8 MW backup generators, but that operational problems with the generators could cause the generators to trip off-line when operated simultaneously. Enerwise further knew that the intended repairs required to ensure that the MSA generators would not trip when operated simultaneously had not been made or scheduled prior to the June 1 start of the ILR program's mandatory load reduction period. Enerwise nevertheless registered MSA for the full 4.6 MW load reduction for the 2009/2010 PJM Delivery Year."[2]

This sort of artificial market, with the potential for market manipulation, has real world consequences. When an entity evaluates the economics of building a generation resource to sell into the PJM market, it must consider the two primary revenue sources – capacity revenues and energy revenues. The sum of the expected revenues from these two sources must be sufficient to cover all of the on-going costs plus provide a return on and of investment. A rational investor will only make an investment if it expects that it will receive a return on and of their investment over the life of the asset. If one believes that the current three year capacity prices are reflective of capacity prices in the future, there are only two realistic results that can occur. Either new generation facilities will not be built and reliability will be compromised, or market energy prices will rise dramatically.

[2] Order Approving Stipulation and Consent Agreement in Docket No. IN12-15-000 dated June 7, 2013.

Q. WHATEVER THE PROBLEMS WITH "GOING TO MARKET," SHOULDN'T KENTUCKY POWER TAKE ADVANTAGE OF TODAY'S LOW PRICES AND LOCK IN THE SAVINGS FOR THE COMPANY'S CUSTOMERS WITH LONG-TERM BILATERAL CONTRACTS?

A. It's a false premise to believe that today's low prices are an indication that a long-term bilateral contract would result in low prices over the long-term. I've previously discussed how an investor would evaluate the potential revenue sources in making the decision concerning whether to build or not build a new asset. Sellers offering to enter into bilateral contracts would consider many of these same factors. Additionally, this seller would have to consider the alternative to entering into a bilateral contract – selling power into the market – and the price offered would be informed by the expected revenue from that alternative. The market case that Company witness Weaver presents, as well as the results of the Big Sandy 1 RFP, indicates that a long-term bilateral contract would result in a higher cost to the customers of Kentucky Power than the Mitchell transfer.

IV. RISKS OF A MARKET BASED SOLUTION

Q. ARE YOU AWARE OF ANY CONCERNS EXPRESSED REGARDING THE PJM RPM?

A. Yes. This Commission expressed its concerns with the PJM RPM market early on in filings before the FERC with statements including the following:

> "This condition demonstrates an agreement that the RPM or any similar tariff provision would not harm Kentucky Power Company's captive customers. No party contested this condition, and the Commission approved it as part of the overall settlement. The KY PSC urges the Commission to continue to ensure that any resource adequacy tariff does not penalize the retail ratepayers in fully regulated states that are a part of the PJM footprint."[3] "Kentucky remains a fully

[3] Comments of the Kentucky Public Service Commission in Docket Nos ER05-1410-000 and EL05-148-000 dated March 2, 2006.

regulated state. The provisions authorizing the Fixed Resource Requirement are therefore especially important in our regulation of Kentucky Power Company."[4]

In addition, during the development phase of the RPM model, the Ohio Commission had concerns with protecting a state's generation resource adequacy. As stated in the Commission's comments in FERC Docket No. EL05-148-000:

> "...PJM's rules do not recognize the need to recover reasonable investment costs nor the timely repayment of debt—bedrock principles required for financing an industry as capital intensive as the electricity industry." (p.14).

The Commission goes on to state:

> "Generator owners cannot long survive on recovery of the short run marginal cost of energy alone, but must consistently recover some of their long run marginal costs as well." (p.14).

These statements are as true today as when they were written. On June 17, 2013, the FERC issued a Notice of Technical Conference to "consider how current centralized capacity market rules and structures are supporting the procurement and retention of resources necessary to meet future reliability and operational needs." The transfer of the Mitchell units will allow Kentucky Power to stand apart from the volatility and risks inherent in a market-based solution to ensure that sufficient capacity at reasonable prices exists to meet the needs of its customers in Kentucky.

Q. ARE YOU AWARE OF ANY STATE COMMISSION THAT HAS RECENTLY MADE A MOVE TO A MARKET BASED SOLUTION FOR THE CAPACITY AND ENERGY NEEDS OF RETAIL CUSTOMERS?

A. Yes. The Public Utilities Commission of Ohio (PUCO) decided in 2011 and 2012 to aggressively move from an owned asset model (with customer choice) to a marked based

[4] Statement in Support of Settlement of the Kentucky Public Service Commission in Docket Nos ER05-1410-000 and EL05-148-000 dated October 19, 2006.

solution for generation service for retail customers of several of the Investor Owned Utilities (IOUs) in the state, including AEP Ohio.

Q. HAVE ANY CUSTOMER GROUPS EXPRESSED CONCERN OVER THE RATE IMPACT FOR CUSTOMERS RELATED TO THIS TRANSITION TO MARKET BASED PRICING IN OHIO?

A. Yes. The Ohio Consumers Council and the Ohio Energy Group recently filed testimony with the PUCO expressing concern with the impact on customer rates that could result from the energy auctions that AEP Ohio will hold to serve non-shopping customers (customers that have not selected an alternative supplier and will be served by AEP Ohio under a default service retail tariff) for the period from late 2013 through mid-2015. Their testimony goes on to use an estimated energy cost of over $56/MWh before consideration of capacity costs. This compares to a five-year average cost for the Mitchell asset transfer of approximately $60/MWh. In addition, several of Ohio's largest industrial customers have filed petitions to increase their discounts associated with special arrangement contracts due to a fear of market prices.

Q. IF KENTUCKY POWER WERE TO LARGELY RELY ON THE MARKET TO MEET THE GENERATION NEEDS OF ITS CUSTOMERS, IS THIS THE SAME AS KENTUCKY BECOMING A DEREGULATED STATE?

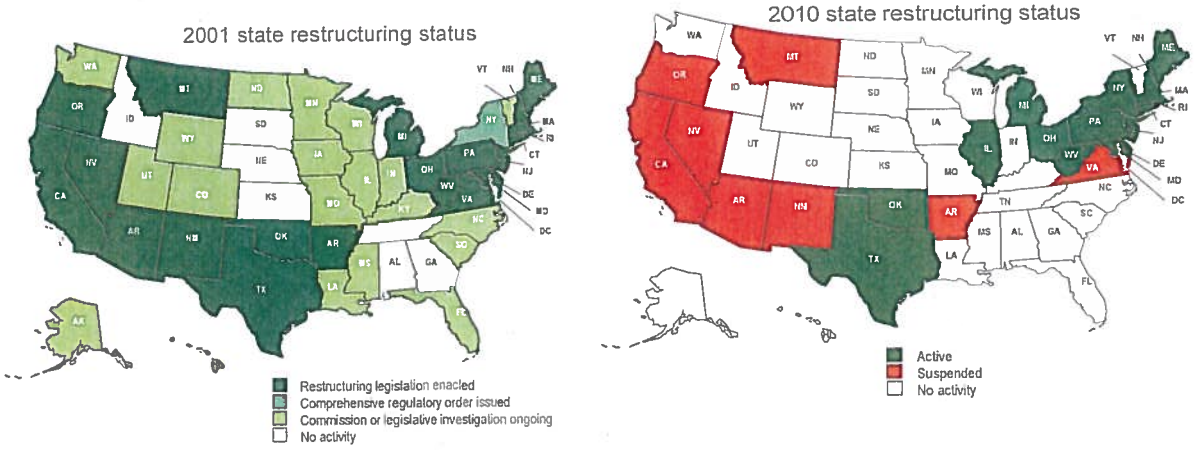
A. In many respects the result would look very much like a deregulated state from a customer perspective. The customer would experience all of the market volatility that customers in a deregulated state would see.

Q. HAVE OTHER STATES MOVED TO DEREGULATE THEIR RETAIL ELECTRICITY MARKETS?

A. The move to establish completely competitive retail markets came in the mid-1990s. Each state took a somewhat different approach. California was the first to take the plunge and California was the first to fall. When price caps expired customers of San Diego Gas and Electric saw their bills double and triple. Compare what happened in California in 2000 and 2001 to the fact that under the traditional regulatory model Kentucky Power did not seek a base rate adjustment between 1991 and 2005.

Many states that had become competitive, or had started down the road, reversed their direction after California collapsed. The figure below clearly shows the trend across the country to return to a regulated model for generation service.

Figure 2: Trends in Restructuring[5]



Source: EIA

Q. YOU'VE DISCUSSED SEVERAL RISKS ASSOCIATED WITH GOING TO A MARKET BASED SOLUTION, ARE THERE RISKS ASSOCIATED WITH USING AN RFP TO PROCURE GENERATION RESOURCES TO MEET THE NEEDS OF KENTUCKY POWER'S CUSTOMERS?

[5] Restructuring is no longer active in West Virginia or Oklahoma.

A. Yes. First, I would like to caution that utilizing an RFP approach and seeking solutions that move ownership of generation resources away from the utility is a slippery slope towards deregulation of the generation function. Depending upon the type of resource selected through an RFP process there are a number of risks to the Company and its customers. An RFP process could result in several resource solutions including: 1) a pure market based solution; 2) a purchase power agreement (PPA) from a single plant or group of plants; 3) an asset purchase from a non-affiliated company; 4) an asset purchase or transfer from an affiliated company; 5) the retrofit of an existing facility; or 6) a new build by the utility. I have previously described the risks associated with a market based solution.

There are multiple risks that come with using a RFP to acquire a PPA to serve the needs of the Company's customers. The first is that regulatory authority transfers from this Commission to the FERC. Although the Commission has initial approval authority over a PPA to the extent permitted by KRS 278.300, thereafter authority resides with FERC. The second is the balance sheet risk that Kentucky Power must take on if it enters into a PPA. The value of the PPA must be placed on the books of Kentucky Power and can stress the credit rating of the Company and raise the overall costs to ratepayers. The third issue is the risk that the counterparty will have the long-term financial and operational wherewithal to perform under the contract. Finally, a PPA is a contract and it may be difficult or costly to change if circumstances change. Under the traditional regulatory model, the utility works with the Commission and key stakeholders to develop solutions as issues arise. An example is the extension of the Rockport Agreement that provided benefits to both Kentucky Power and its customers. Such a beneficial solution

would not have occurred if that power was served through a PPA from a non-affiliated entity. With a PPA, the supplier is purely a profit maximizing entity, over whom the Commission is likely to have little or no regulatory authority, and which will not have the long-term commitment to Kentucky Power's customers or this Commission that Kentucky Power does.

Asset purchases have their own set of risks. A key risk is the unknown operational characteristics of the generating units. Another risk is the liabilities – both known and unknown – that come with the purchase of the generating units. With the transfer of the Mitchell units both of these risks are greatly diminished. These are assets that were built and operated by Ohio Power Company which is an affiliate of Kentucky Power. The same groups within AEP were responsible for the construction and operation of the Mitchell units and the Big Sandy units. Kentucky Power and its management know the Mitchell units and how they have been maintained over the years.

The last two options, retrofitting an existing unit or building a new generation resource both have construction related risks which don't exist under the proposed asset transfer.

V. IMPACT OF PRESIDENT OBAMA'S CLIMATE ACTION PLAN

Q. THE PRESIDENT RECENTLY LAID OUT HIS ADMINISTRATION'S PLAN TO CUT CARBON EMISSIONS. HAS ANYTHING IN THAT PLAN CAUSED YOU TO REASSESS OR CHANGE YOUR POSITION THAT THE MITCHELL TRANSFER IS A GOOD SOLUTION TO MEET THE ENERGY NEEDS OF THE CUSTOMERS OF KENTUCKY POWER?

A. No, in fact this plan provides additional support for the assumptions included in the analysis that the Company performed. The testimony of Company witnesses McManus, Weaver and Bletzacker provide additional insights into how the Company modeled the impact of potential carbon legislation or regulation in this case. First, the schedule that the President outlined is consistent with the assumptions included in our modeling. This schedule includes the Environmental Protection Agency (EPA) issuing proposed carbon pollution standards or guidelines for existing power plants by June 1, 2014 and final standards or guidelines by June 1, 2015. The states would then submit State Implementation Plans to the EPA by June 1, 2016. Historically, these State Implementation Plans have had implementation periods of four to five years. This would result in these standards or guidelines becoming effective in the summer of 2020 or 2021. Depending upon litigation or delays in states developing the State Implementation Plans the date could be even later. The Company's analysis is in line with these estimates and currently assumes an implementation date of January 2022.

As important as the timeline that the President outlined are the details of how the President directed the EPA to work with the states and other stakeholders in the design of the program. Specifically the President directed the EPA to:

> (i) launch this effort through direct engagement with States, as they will play a central role in establishing and implementing standards for existing power plants, and, at the same time, with leaders in the power sector, labor leaders, non-governmental organizations, other experts, tribal officials, other stakeholders, and members of the public, on issues informing the design of the program;
>
> (ii) consistent with achieving regulatory objectives and taking into account other relevant environmental regulations and policies that affect the power sector, tailor regulations and guidelines to reduce costs;

(iii) develop approaches that allow the use of market-based instruments, performance standards, and other regulatory flexibilities;

(iv) ensure that the standards enable continued reliance on a range of energy sources and technologies;

(v) ensure that the standards are developed and implemented in a manner consistent with the continued provision of reliable and affordable electric power for consumers and businesses; and

(vi) work with the Department of Energy and other Federal and State agencies to promote the reliable and affordable provision of electric power through the continued development and deployment of cleaner technologies and by increasing energy efficiency, including through stronger appliance efficiency standards and other measures.

The President has clearly outlined a plan that 1) engages states, the power sector and businesses; 2) enables the continued reliance on a range of energy sources; and 3) recognizes the importance of continuing the provision of reliable and affordable power for consumers and businesses. In short, I believe that the impact of the President's plan, if implemented in a balanced manner, is not inconsistent with the facts and assumptions presented by the Company in this case.

VI. CONCLUSION

Q. DO YOU HAVE ANY FINAL COMMENTS RELATED TO THE MITCHELL TRANSFER?

A. The Company has demonstrated through testimony that the proposed asset transfer is the least cost alternative for our customers. The Mitchell transfer provides significant benefits to all parties involved in this case and should be approved. From its earliest days AEP has been focused on meeting our customers' needs in a way that serves them well over the long-term. AEP President George Tidd stated it very well in 1934 when he wrote:

> Our job is producing energy and getting it wherever our customers use it – with efficiency and with respect for the environment. We're in this business because it is concerned with the supply of a fundamental requirement of modern living, because it's an honorable one, because we like it, and because we want to earn a living at it.
>
> We aim to give one kind of service to everyone … the best that's possible. That means supplying our customers with what they want when they want it. It means being courteous and easy to do business with at all times. It means doing everything we can to keep complaints from arising, and it means prompt and fair handling of those that do.
>
> We are citizens of each community we serve and take an active part in its affairs. Like any other citizen, we want our neighbors to think well of us. Besides, it makes good business sense. We prosper only as the community prospers; so we help it thrive in every way we can.

These statements are as true today as they were nearly 80 years ago when they were first written. The Mitchell transfer provides many benefits to our customers and communities including the supply of stable and reasonably priced power for years to come which is key as our communities position themselves to prosper. In addition, as mentioned earlier in my testimony, I spend significant time with AEP analysts and investors. Today, like all of us, they seek stability and certainty; the Mitchell transfer provides both stability and certainty.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. This proceeding is ultimately about what is in the best interests of the retail customers of Kentucky Power. The parties to this case should not be enticed by short-term market prices at the expense of longer-term stability, reliability and investment in generation. That is a "penny-wise, pound-foolish" approach that could be disastrous in the long run. The owned asset model that Kentucky Power has operated under for many years has resulted in low and stable rates for its customers. The Mitchell asset transfer will allow this benefit to continue to accrue to customers in the years to come.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

The Application Of Kentucky Power Company For:	)	
(1) A Certificate Of Public Convenience And Necessity	)	
Authorizing The Transfer To The Company Of An	)	
Undivided Fifty Percent Interest In The Mitchell	)	
Generating Station And Associated Assets; (2) Approval	)	
Of The Assumption By Kentucky Power Company Of	)	Case No. 2012-00578
Certain Liabilities In Connection With The Transfer Of	)	
The Mitchell Generating Station; (3) Declaratory Rulings;	)	
(4) Deferral Of Costs Incurred In Connection With The	)	
Company's Efforts To Meet Federal Clean Air Act And	)	
Related Requirements; And (5) For All Other Required	)	
Approvals And Relief	)	

SUPPLEMENTAL TESTIMONY

OF

SCOTT C. WEAVER

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Scott C. Weaver being duly sworn, deposes and says he is the Managing Director Resource Planning and Operation Analysis for American Electric Power Service Corporation 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.

SCOTT C. WEAVER

STATE OF OHIO)
) CASE NO. 2011-00578
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Scott C. Weaver, this the 21st day of June 2013.

Notary Public

My Commission Expires: May 11th, 2016

NOTARIAL SEAL STATE OF OHIO

ELLEN A. MCANINCH
NOTARY PUBLIC
STATE OF OHIO
Recorded in
Franklin County
My Comm. Exp. 5/11/16

SUPPLEMENTAL TESTIMONY OF
SCOTT C. WEAVER, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

CASE NO. 2012-00578

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SUPPLEMENTAL TESTIMONY OF
SCOTT C. WEAVER, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION?

A. My name is Scott C. Weaver, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by the American Electric Power Service Corporation (AEPSC) as Managing Director-Resource Planning and Operational Analysis.

Q. DID YOU FILE DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes. I filed direct and rebuttal testimony on behalf of Kentucky Power Company (Kentucky Power or, the Company).

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to respond to the Commission's May 28, 2013 order directing Kentucky Power to provide "...an analysis of the bids received" in response to the Company's Request for Proposals (RFP) solicitation issued on March 28, 2013, seeking up to 250 MW of long-term (15-year) capacity and attendant energy effective June 1, 2015 (the "250 MW RFP"). The 250 MW RFP was issued to seek alternatives as part of the Company's investigation of retaining Kentucky Power's Big Sandy Unit 1 in its resource portfolio by way of converting the unit to burn natural gas instead of coal (which would result in a continued capacity contribution of 268 MW).

III. 250 MW RFP EVALUATION

Q. WHAT WERE THE RESPONSES TO THE COMPANY'S 250 MW RFP SOLICITATION?

A. AEPSC, as agent for Kentucky Power, received updated cost and performance profiles associated with the Big Sandy Unit 1 gas conversion, on June 7, 2013. On June 11, 2013, AEPSC also received a total of [redacted] As further described in the supplemental testimony of Company Witness Karrasch which also supports the Company's analysis in response to the Commission-requested RFP evaluation, the responses to the 250 MW RFP consisted of [redacted] Mr. Karrasch's testimony also offers a (confidential) summary of [redacted] offers.[1]

Q. WOULD YOU BRIEFLY IDENTIFY AND DESCRIBE THE NATURE OF THE CONFORMING OFFERS THAT WERE FURTHER EVALUATED BY THE COMPANY?

[redacted] Yes. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[1] (Confidential) Exhibit JAK-2S.

[redacted]

Q. DID THE COMPANY RECEIVE ANY OTHER PROPOSALS AS PART OF THIS SOLICITATION?

[redacted] Yes. EnerNOC, Inc. (EnerNOC), offered [redacted]

[redacted]

[redacted]

Q. WHAT WAS THE INITIAL STEP IN THIS BID EVALUATION PROCESS?

A. The analysis involved extracting and assembling the pricing and performance characteristics submitted for each conforming proposal, by the respective bidding parties. To the extent that issues arose that required clarification from the non-affiliate bidders, requests for additional information were made by the Company's representative—Company Witness Karrasch—to the designated "contact" person for each of the respective responding companies. This clarification process occurred within the period June 11 through June 21. At that point, it was necessary to end the process to ensure results could be provided by June 28, 2013.

Q. DID ANY OF THE UPDATED COSTS AND PERFORMANCE PROFILES ASSOCIATED WITH THE COMPANY'S BIG SANDY UNIT 1 GAS CONVERSION OPTION REQUIRE ADJUSTMENT OR CLARIFICATION AFTER THE NON-AFFILIATED, THIRD-PARTY BIDS WERE RECEIVED?

A. No. The updated Big Sandy Unit 1 gas conversion parameters utilized as part of this evaluation exercise did not change from those that were received on June 7, 2013. As a result, all of the Big Sandy Unit 1 gas conversion information necessary for purposes of this 250 MW RFP evaluation was received prior to the receipt of the non-affiliate proposals on June 11.

Q. WERE THERE ANY UPDATES TO THE BIG SANDY UNIT 1 GAS CONVERSION ASSUMPTIONS VERSUS THOSE USED IN YOUR DIRECT TESTIMONY?

A. Yes, to a limited degree. The updated Big Sandy Unit 1 gas conversion assumption utilized in this updated (RFP) analysis had minor increases in the unit's maximum capacity, small decreases in the assumed heat rate, and minor increases in fixed operations and maintenance costs. However, none of these changes significantly impacted the economics of the Big Sandy Unit 1 gas conversion option vis-à-vis the results reflected in the Company's original modeling for this option that was included in my direct testimony.

Q. WHAT WERE THE NEXT STEPS IN THE EVALUATION PROCESS?

A. Once the required preliminary proposal-specific input parameters were received and reasonably validated, as necessary, with the sponsoring bidder, the proposals were then introduced as part of Kentucky Power's overall resource portfolio for purposes of executing the Strategist® long-term resource optimization model. (Strategist® being the tool—described in detail by Company Witness Becker in his direct testimony in this case—that was also used in the previous Big Sandy 1 and 2 "unit disposition" evaluations I have previously sponsored.) Specifically, each proposal was viewed on a Kentucky Power "holistic" basis, by being individually and mutually-exclusively substituted into Kentucky Power's resource portfolio *in lieu of* a Big Sandy Unit 1 gas conversion effective June 1, 2015.[3] With that, the objective function of this 250 MW RFP evaluation exercise was to—similar to the previous Big Sandy 1 and 2 unit disposition evaluation process—compare the overall Kentucky

[3] Consistent with "Option #5A", this overall resource portfolio included: Retirement of Big Sandy Unit 2 effective June 1, 2015; a 50% Mitchell Transfer effective January 1, 2014; the continuation of Kentucky Power's 393 MW purchase agreement for (15%) of Rockport Units 1 and 2 from AEP Generating Company; as well as the projected levels of demand-side management summarized on Exhibit SCW-1, Table 1-2 (Weaver direct).

Power cumulative present worth ("CPW")[4] of costs (revenue requirements) over the 28-year study period (2013-2040) for each of the RFP portfolios offered; including the Company's Big Sandy Unit 1 gas conversion option.

Q. WHAT WERE THE UNDERLYING FUNDAMENTAL ASSUMPTIONS IN THAT STRATEGIST®-BASED RFP ANALYSIS?

A. The underlying generic assumptions for this analysis were the same as those utilized to support the results of my original Big Sandy unit disposition analysis provided in this case. For instance, Kentucky Power's load forecast and the long-term forecasted price of various commodities (energy, natural gas, coals, etc.) were the same as those utilized in that earlier Strategist® modeling in this case.[5] Also, the assumptions around the cost and performance parameters associated with the 50% Mitchell Transfer—a "constant" in this 250 MW RFP analysis of mutually-exclusive options—also did not change from that prior unit disposition analysis.

Q. DID SUCH GENERIC MODELING ASSUMPTONS FOR THIS 250 MW RFP ANALYSIS CONTINUE TO INCLUDE THE PRESUMPTION OF A "CARBON TAX"?

A. Yes. As with those Big Sandy unit disposition analyses offered as part of the original evaluations in this case, a carbon tax effective in the year 2022—as summarized in my direct testimony Exhibit SCW-3—continued to be assumed as part of this 250 MW RFP analysis. As reflected on page 13 of my direct testimony, Company Witness McManus's direct testimony is quoted as follows:

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[4] "CPW" is equivalent to "net present value", which was specified in the Commission's May 28th Order.
[5] This includes the Kentucky Power long-term load and demand forecast summarized in Exhibit SCW-1, Table 1-1; and the 'Base' long-term commodity price forecast summarized in Exhibit SCW-3 (Weaver direct).

> "It is expected that EPA **will propose** GHG NSPS requirements for existing fossil fuel units, but the agency has indicated that it currently has no plans regarding the development or timing of this proposal." (emphasis added)

Despite this timing uncertainty, the Company's modeling *has continued to assume* such a carbon tax—as a reasonable proxy for the deleterious impacts on fossil-fired units of either EPA greenhouse gas (GHG) regulations, or the possibility of federal legislation around carbon—that would be applicable to each tonne of carbon dioxide emitted from all fossil generating sources beginning in the year 2022. Pages 11 and 12 of the direct testimony of Company Witness Bletzacker in this case discusses how the amount and timing of this assumed "carbon tax" was established for such modeling purposes.

Q. WHAT WERE THE RESULTS OF THIS "250 MW RFP" ANALYSIS?

[redacted](Confidential) Exhibit SCW-1S summarizes the relative study period CPW cost differences between a Kentucky Power resource portfolio that would include the Big Sandy Unit 1 gas conversion *versus* [redacted] non-affiliate proposals received via the March 28th 250 MW RFP. [redacted]

Q. ARE THERE OTHER NON-MODELED, OR "QUALITATIVE" FACTORS THAT [redacted] SUGGEST THAT THE BIG SANDY UNIT I GAS CONVERSION IS THE SUPERIOR OPTION TO FILL THIS APPROXIMATE 250 MW CAPACITY AND ENERGY TRANCHE?

A. Yes. Factors such as Company ownership and asset control (versus potential performance risk associated with receiving power and energy via a purchase power arrangement), the continuity of jobs and other socio-economic benefits associated with the continued presence of an operating generating unit in the Lawrence County area, as well as the associated leveraging the Company's Big Sandy Plant employees' skills and knowledge at that particular facility, all represent relative qualitative benefits that were not considered in this comparative RFP economic evaluation, but would further validate that the Big Sandy Unit 1 conversion is the best alternative.

Q. DO THESE RESULTS THEN SUPPORT THE CONVERSION OF BIG SANDY UNIT 1 FROM A COAL-FIRED TO A GAS-FIRED FACILITY?

A. Yes. Specifically, these results would amplify the modeling results from the Company's resource planning "Option #5A"—discussed at length in both my direct and rebuttal testimonies—which reflected both the 50% Mitchell Transfer as a replacement resource for the proposed retirement of Big Sandy Unit 2 *as well as* the Big Sandy Unit 1 gas conversion. Even setting aside the qualitative benefits identified above, Option #5A was the clear "least-cost" Big Sandy unit disposition alternative available to Kentucky Power and its customers by amounts ranging from $156 million (versus an option which *included* the Mitchell transfer; but had no Big Sandy 1 gas conversion [Option #6]) -to- $819 million (for an option that eschewed the Mitchell Transfer for a Big Sandy Unit 2 scrubber retrofit; and also had no Big Sandy 1 gas conversion [Option #1B]).[6]

[6] See Weaver rebuttal, Table 1R (pg. 6) and Exhibit SCW-1R.

Therefore, along with the qualitative issues that should also be brought to bear, this 250 MW RFP modeling analysis quantitatively confirms that an alternative market option that would result from a competitive solicitation would not merit as a reasonable substitute for a gas-converted Big Sandy Unit 1 as part of Kentucky Power's future long-term resource portfolio. In sum, even using the results of this 250 MW RFP, the Company's lowest-cost resource Option #5A, which includes the Big Sandy Unit 1 gas conversion as well as the transfer of an undivided 50% interest in Mitchell Units 1 and 2, has ***again*** been prudently "validated" as the recommended long-term Big Sandy unit disposition plan.

IV. ADDITIONAL INFORMATIVE EVALUATION

Q. PLEASE DESCRIBE THE METHODOLOGY FOR COMPARING THE ECONOMICS OF THE 50% MITCHELL TRANSFER WITH THE CONFORMING PROPOSALS.

A. A Strategist® analysis was conducted that compared the economics of a case that assumed the Big Sandy Unit 1 gas conversion and the 50% Mitchell transfer (Option #5A) *versus* a case that assumed the Big Sandy Unit 1 gas conversion and the "stacking" of all of the non-affiliate conforming offers so as to roughly take the place of the 50% Mitchell Transfer. As with the comparative 250 MW RFP Strategist®-based offer profiling, the model was allowed to execute over the 2013 through 2040 study period to determine the relative CPW of costs of these two cases. Those CPWs were then compared to determine if the comparably-sized stack of the non-affiliate conforming offers, in combination, would be more economic that the 50% Mitchell Transfer.

Q. THE COMMISSION'S MAY 28TH ORDER SUGGESTED THAT "...THE DETAILS OF THE BIDS SUBMITTED IN RESPONSE TO THIS [250 MW] SOLICITATION SHOULD PROVIDE USEFUL INFORMATION REGARDING THE CURRENT AVAILABILITY AND PRICING OF LONG-TERM GENERATION, AND WILL ASSIST THE COMMISSION IN INVESTIGATING THE REASONABLENESS OF KENTUCKY POWER'S PROPOSED PURCHASE OF 50 PERCENT OF THE MITCHELL GENERATING STATION [780 MW]." WHAT SHOULD THE COMMISSION CONSIDER IN MAKING ANY SUCH INVESTIGATION?

A. As will be described, while the comparative analysis that the Company performed will again confirm that the Mitchell Transfer is the least-cost option for the disposition of Big Sandy Unit 2, there are other factors which the Commission should be aware that will reinforce the appropriateness of the asset transfer.

Q. COULD YOU EXPAND UPON SOME OF THOSE CONSIDERATIONS?

[redacted]Yes. First and foremost, the sum total of the [redacted] Further, when assessing the relative performance make-up of that "stack"—or grouping—of available replacement capacity, it appears that roughly [redacted]

[redacted]

[redacted]

Q. WOULD SUCH A "MITCHELL SUBSTITION" UTILIZING THIS STACK OF RFP-OFFERED RESOURCES LEAD TO GREATER RELIANCE ON (PJM) MARKET-BASED ENERGY PURCHASES?

A. Yes.

Q. WOULD THAT GREATER RELIANCE ON MARKET-BASED ENERGY LEAD ALSO TO GREATER PRICING/COST RISK FOR KENTUCKY POWER AND ITS CUSTOMERS?

A. Most certainly. As also highlighted by Company Witness Munczinski, it is well-established that "market" energy prices which are becoming more-and-more driven, on the margin, by natural gas-fired sources, would lead to greater price risk versus baseload coal-fired generating resources such as Mitchell Units 1 and 2.

In fact, there is evidence in this case that bears that out. My direct (and rebuttal) testimonies discuss certain "Monte Carlo" simulation risk modeling that was performed by the Company, using the AURORAxmp tool, to address possible cost risk among the resource options analyzed that have more (or less) dependency on market energy purchases. As described on pages 42 through 44 of my direct testimony (and summarized on Exhibit SCW-6), the "Revenue Requirement at Risk

(RRaR)"[8] between Option #5A—the Big Sandy Unit 1 gas conversion and 50% Mitchell Transfer—and an option with a large energy market exposure—such as "Option #4B", which did not assume the Mitchell Transfer, but rather that Kentucky Power would rely on PJM for equivalent levels of energy and capacity market for a period as long as 10 years—was significantly greater for the largely market-based Option #4B. Indeed, the RRaR between those options was *$263 million* greater for Option #4B. Although time constraints prevented the Company from performing such AURORAxmp-based risk modeling as part of this additional RFP evaluation exercise, it is reasonable to assume that comparable levels of this simulated price risk could readily be *layered-on* to the costs of the RFP-based alternative to the 50% Mitchell Transfer [redacted].

In spite of this caution, Kentucky Power *has* performed an additional economic evaluation, using Strategist®, that sought to, again, effectively "substitute" the Mitchell Transfer assets [redacted] Exhibit SCW-2S offers the results of that analysis. It indicates that—without the consideration of the potential for tens, or even hundreds of millions of dollars of cost risk exposure (RRaR) to Kentucky Power's customers associated with

[8] This risk modeling sought to establish a Revenue Requirement at Risk which represents the difference between the calculated generation-cost CPW result at the 50th (median) and 95th percent outcome across 100 simulations modeled. The 95th percentile representing a level of required revenues sufficiency high that it will be exceeded, assuming the given plan was adopted, with an estimated probability of just 5%. Therefore, RRaR represents a measure of customer risk or uncertainty inherent in each option portfolio.

[redacted]

an option that would be more highly-dependent on market-based energy sources—the substitution of the 50% Mitchell transfer with the remaining, non-selected offers from the 250 MW RFP solicitation would result in a $110 million cost premium over the study period versus the Company's recommended plan which would include that asset transfer.

Q. BASED ON THAT ADDITIONAL STRATEGIST® ANALYSIS, DO YOU BELIEVE THESE MODELING RESULTS OFFER INFORMATION TO THE COMMISSION THAT WOULD ASSIST IN ITS DETERMINATION OF "...THE REASONABLENESS OF KENTUCKY POWER'S PROPOSED PURCHASE OF 50 PERCENT OF THE MITCHELL GENERATING STATION"?

A. Yes. It suggests that the 50% Mitchell Transfer, combined with the fuel conversion of Big Sandy Unit 1 to natural gas, is the least-cost alternative. Second, however, is the recognition of the impracticality of relying upon a "patchwork" of resources; including [redacted] All of these coalesce in favor of an owned asset solution as suggested in the supplemental testimony of Company Witness Munczinski. Moreover, as summarized by Mr. Munczinski in that testimony:

"This proceeding is ultimately about what is in the best interests of the retail customers of Kentucky Power. The parties to this case should not be enticed by short-term market prices at the expense of longer-term stability, reliability and investment in generation. That is a 'penny-wise, pound-foolish' approach that could be disastrous in the long run. The owned asset model that Kentucky Power has operated under for many years has resulted in low and stable rates for its customers. The Mitchell asset transfer will allow this benefit to continue to accrue to customers in years to come."

Q. IN THAT REGARD, WHAT ARE YOUR CONCLUSIONS RESULTING FROM THIS EVALUATION EXERCISE AS REQUESTED BY THE COMMISSION?

A. The Company has transparently set forth the information that was forthcoming from its recent 250 MW RFP solicitation. Based on the market information utilized from this solicitation process, the Company believes it has adequately provided evidence to confirm that the conversion to gas of Big Sandy Unit 1 is reasonable and prudent. The analysis offered also serves to amplify and re-affirm the merit of the 50% Mitchell Transfer. Further, the Company's solicitation process offered no other evidence that would suggest that a superior "market-based" solution exists. That fact, plus the other qualitative issues discussed in this and other Company witness' testimonies would confirm that Kentucky Power, and its customers, are "getting not only a good deal, but the best deal" by retaining an existing resource in the form of Big Sandy Unit 1 that would offer fuel diversity, while receiving well-maintained, fully-controlled baseload resources in the form of the "known entity" of Mitchell Units 1 and 2.

Q. DOES THIS CONCLUDE YOUR PRE-FILED SUPPLEMENTAL TESTIMONY?

A. Yes.

EXHIBIT SCW-1S
REDACTED IN ITS
ENTIRETY

EXHIBIT SCW-2S
REDACTED IN ITS
ENTIRETY

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF

CASE NO. 2012-00578

MOTION OF KENTUCKY POWER COMPANY FOR CONFIDENTIAL TREATMENT

Kentucky Power Company moves the Public Service Commission of Kentucky pursuant to 807 KAR 5:001, Section 13(2), for an Order granting confidential treatment to the identified portions of its supplemental filing in response to the Commission's May 28, 2013 Order in this case. Specifically, Kentucky Power seeks confidential treatment of the identified portions of the supplemental testimony of Company Witnesses Scott Weaver and Joseph Karrasch and their exhibits and workpapers thereto. Kentucky Power's petition is supported by the Affidavit of Jay F. Godfrey ("Godfrey Affidavit"), a copy of which is attached as Exhibit A.

Pursuant to 807 KAR 5:001, Section 13, Kentucky Power is filing under seal those portions of the testimony, exhibits, and workpapers, with the confidential portions highlighted in yellow. Kentucky Power is also filing redacted versions of the same. Additionally, Kentucky Power is filing compact discs containing the workpapers, in electronic form with all formulas intact and unprotected, used in the preparing the analysis in the supplemental response. The confidential workpapers are contained on a separate disc labeled as such. Kentucky Power will notify the Commission when it determines the information for which confidential treatment is sought is no longer confidential.

A. The Requests And The Statutory Standard.

Kentucky Power does not object to filing the identified information for which it is seeking confidential treatment, but requests that the identified portions of the responses be excluded from the public record and public disclosure.

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 the following information for which Kentucky Power is seeking confidential treatment:

(a) **Portions of the Supplemental Testimony of Scott Weaver and Joseph Karrasch And Accompanying Exhibits And Workpapers**

Kentucky Power seeks confidential treatment for the identified portions of the supplemental testimony of Scott Weaver and Joseph Karrasch and the exhibits and workpapers thereto. These testimonies, exhibits, and workpapers contain information developed by the Company based upon information provided by third parties pursuant to confidentiality

agreements and in response to Kentucky Power's March 28, 2013 request for proposals for up to 250 MW of long-term capacity and energy ("RFP"). Kentucky Power in part conducted this evaluation to meet its obligations under the Commission's May 28, 2013 order in Case No. 2012-00578.

The identified portions of the testimony, exhibits, and workpapers contain information relating to the responses to the RFP, including bidder identification, the identity of the assets or arrangements being offered, fuel and transaction costs, and pricing terms. The information also provides insight into the manner by which Kentucky Power evaluates bids in response to RFPs. Because Kentucky Power conducted this evaluation at the beginning of its analysis of the RFP bids, a comparison between the initial and final price could also provide insight into the Company's negotiating process. Godfrey Affidavit, ¶ 6. Disclosure of this information could put Kentucky Power at a competitive disadvantage in future contract negotiations to the detriment of the Company and its customers. *Id.*

Further, the information contained in Attachment 1 is protected as Confidential Information under the Mutual Confidentiality Agreement between American Electric Power Service Corporation ("AEPSC"), as Kentucky Power's agent, and the bidders. Godfrey Affidavit, ¶ 7. Disclosure of this information is not prohibited by the Agreement, but the protections afforded by confidential treatment are required. *Id.* Failure to maintain this information as confidential could have a chilling effect on the willingness of potential bidders in future Kentucky Power and AEPSC RFPs to respond to such requests. *Id.*

B. <u>The Identified Information is Generally Recognized As Confidential and Proprietary and Public Disclosure Of It Will Result In An Unfair Commercial Advantage for Kentucky Power's Competitors.</u>

The identified information required to be disclosed by Kentucky Power in response to the Commission's May 28, 2013 Order is highly confidential. Godfrey Affidavit, ¶ 4.

Dissemination of the information for which confidential treatment is being requested is restricted by Kentucky Power, its parent, AEP, and its affiliates (including AEPSC). Godfrey Affidavit, ¶ 9. The Company, AEP, and its affiliates 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. *Id.* The information is not disclosed to persons outside Kentucky Power, AEP, or its affiliates. *Id.* Within those organizations, the information is available only upon a confidential need-to-know basis that does not extend beyond those employees with a legitimate business need to know and act upon the identified information. *Id.* In addition, Kentucky Power and AEPSC have further limited the availability of the information to ensure the integrity of the RFP process.

The confidential information should be kept confidential for five years, unless the Company enters into a final agreement with one of the bidders to the RFP. In that case, the Confidentiality Agreement requires that the Company treat the identified material as confidential until two years after the termination of the final agreement. After these time periods (the term of final agreement plus two years or five years if there is no final agreement), developments within the power markets will render the information outdated and no longer useful in ascertaining the Company's strategies and plans. Prior disclosure will adversely affect the Company's ability to negotiate future purchased power agreements.

C. The Identified Information Is Required To Be Disclosed To An Agency.

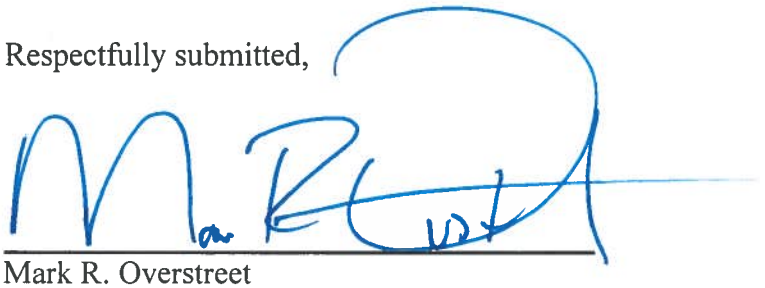
The identified information is by the terms of the Commission's Order required to be disclosed to the Commission. The Commission is a "public agency" as that term is defined at KRS 61.870(1). Any filing should be subject to a confidentiality order and any party requesting such information should be required to enter into an appropriate confidentiality agreement.

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

1. According confidential status to and withholding from public inspection the identified information; and

2. Granting Kentucky Power all further relief to which it may be entitled.

Respectfully submitted,



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COUNSEL FOR KENTUCKY POWER COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by overnight delivery upon the following parties of record, this 28th day of June, 2013.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF: **APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF**	**Case No. 2012-00578**

AFFIDAVIT OF JAY F. GODFREY

Jay F. Godfrey, first being duly sworn, states:

Background

1. I am of the age of majority and competent to make this affidavit. I have personal knowledge of the matters set forth in this affidavit.

2 I am employed by American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent company of Kentucky Power Company (Kentucky Power). I am employed as Managing Director - Renewable Energy for AEPSC. In that capacity, I manage AEP's and its subsidiaries' portfolio of Renewable Energy Purchase Agreements (REPAs) and related long-term structured

emission reduction offset agreements. I also am part of the organization that develops, implements, and evaluates responses to requests for proposals (RFPs) for AEP's operating companies. I have personal knowledge of Kentucky Power's March 28, 2013 RFP for up to 250 MW of long-term capacity and energy ("250 MW RFP") and the Mutual Confidentiality Agreements entered into between AEPSC, as agent for Kentucky Power, and the bidders.

3. I have specific personal knowledge of the confidential, proprietary, and competitively sensitive nature of the confidential information that is the subject of Kentucky Power's petition (Confidential Information) through direct contact with this information and through my investigation with other AEPSC and Kentucky Power employees who work directly with the confidential information. I also have personal knowledge of efforts taken by Kentucky Power and AEPSC to maintain the secrecy of the Confidential Information through direct involvement in these efforts, and through my investigation of these efforts with other employees who work directly with these procedures. Finally, I have personal knowledge through my investigation, along with other AEPSC and Kentucky Power employees who work directly with the Confidential Information, of the effect the public disclosure of the Confidential Information would have on the Company's competitive efforts in securing such contracts.

The Information For Which Confidential Treatment Is Being Sought

4. Kentucky Power seeks confidential protection for identified portions of the analysis prepared in compliance with the Commission's May 28, 2013 Order in Case No. 2012-00578 and its testimony in support thereof, which include:

(a) Information contained within the proposals submitted by the bidders, including the identification of the bidders, to Kentucky Power's 250 MW RFP; and

(b) Information evidencing Kentucky Power's interpretation and evaluation of the proposals submitted by the bidders to Kentucky Power's 250 MW RFP.

This information is confidential, proprietary, competitively sensitive, and a trade secret.

Public Disclosure Of The Confidential Information Will Provide An Unfair Commercial Advantage To Competitors Of Kentucky Power

5. The market for capacity and energy is extremely competitive. There are multiple sellers of energy seeking the highest prices and most advantageous terms for their capacity and energy. As a result, Kentucky Power and its affiliates engage in extensive negotiations with respondents to RFPs to ensure that the outcome is the most advantageous to its customers.

6. Kentucky Power and the other AEP operating affiliates may engage in similar RFPs in the future. If the Confidential Information became publicly known or available, parties with which Kentucky Power and the other AEP affiliate operating companies may negotiate could use this knowledge to the detriment of Kentucky Power, its customers, and affiliates. The Confidential Information provides an insight into the starting point of Kentucky Power's negotiations with responsive bidders. Knowledge of the proposal information for which confidential protection is sought by other potential suppliers would establish certain benchmarks in future negotiations, especially in comparison to any final agreement terms, thereby potentially increasing costs incurred by customers of Kentucky Power and its affiliates. In other words, other suppliers would gain inside knowledge about the Company's negotiation strategies, giving them a leg up in future RFP processes to the detriment of Kentucky Power's customers.

7. Additionally, the Mutual Confidentiality Agreements entered into by AEPSC, as agent for Kentucky Power, and the bidders, while not prohibiting disclosure, require that the Kentucky Power seek confidential treatment of the information. A failure of Kentucky Power to

take all appropriate steps to maintain the confidentiality of the information subject to the Mutual Confidentiality Agreements could have a chilling effect on the willingness of potential bidders to submit proposals to future RFPs from Kentucky Power or its affiliates. If the pool of potential bidders is reduced due to the disclosure of Confidential Information covered by the Mutual Confidentiality Agreements, competition among bidders for future RFP awards could be reduced to the detriment of Kentucky Power's customers.

The Confidential Information Is Not Available Or Ascertainable By Other Parties

8. The Confidential Information is not available or ascertainable by other parties through normal or proper means. No reasonable amount of independent research could yield this information to other parties.

9. The Confidential Information has been the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Kentucky Power and AEPSC limit public access to buildings housing the Confidential Information by use of security guards. Persons not employed by Kentucky Power and AEPSC who are allowed past security guards at buildings where Confidential Information is kept are not permitted to walk within such buildings without an escort. Kentucky Power's and AEPSC's files containing the Confidential Information are maintained separately from Kentucky Power's and AEPSC's general records and access to those files is restricted. Within Kentucky Power and AEPSC, access to this information has been and will continue to be disclosed only to those employees, officers and representatives of Kentucky Power and AEPSC who have a need to know about such information due to their job and management responsibilities. Outside Kentucky Power and AEPSC, this information is only provided to certain persons who have a legitimate need to review the information to participate in this Cause and who sign a confidentiality agreement.

10. Further the Affiant sayeth naught.

Jay F. Godfrey

STATE OF OHIO)
) SS:
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public, in and for said County and State this 27th day of June 2013.

Notary Public

NOTARIAL SEAL
STATE OF OHIO

Donna J. Stephens
Notary Public, State of Ohio
My Commission Expires 01-04-2014