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July 3, 2013

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JUL 03 2013

PUBLIC SERVICE  
COMMISSION

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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. 2013-00144**

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Power Company's Motion to Amend Application and to Deviate From Filing and Publication Requirements. The Amended Verified Application is tendered as Exhibit 1 to the motion.

The Company also is filing the Supplemental Testimony of Ranie K. Wohnhas. Mr. Wohnhas' supplemental testimony is limited to the reason for the requested amendment and operation of Tariff B.E.R.

A copy of the motion, with all exhibits including the tendered Verified Application, along with Mr. Wohnhas' testimony, is being served on counsel for the parties 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: Michael L. Kurtz  
Jennifer B. Hans

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY POWER COMPANY FOR: (1) THE APPROVAL OF THE TERMS AND CONDITIONS OF THE RENEWABLE ENERGY PURCHASE AGREEMENT FOR BIOMASS ENERGY RESOURCES BETWEEN THE COMPANY AND ECOPOWER GENERATION-HAZARD LLC; (2) AUTHORIZATION TO ENTER INTO THE AGREEMENT; (3) THE GRANT OF CERTAIN DECLARATORY RELIEF; AND (4) THE GRANT OF ALL OTHER REQUIRED APPROVALS AND RELIEF

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JUL 03 2013

PUBLIC SERVICE  
COMMISSION

CASE NO. 2013-00144

**MOTION OF KENTUCKY POWER COMPANY  
TO AMEND APPLICATION AND TO DEVIATE FROM  
FILING REQUIREMENTS**

Kentucky Power Company moves the Public Service Commission of Kentucky pursuant to 807 KAR 5:001, Section 4(5), for an Order authorizing it to amend the Application filed in this case on April 10, 2013<sup>1</sup>. Kentucky Power also moves the Commission pursuant to 807 KAR 5:001, Section 21 and 807 KAR 5:011, Section 15 for authority to deviate from the financial exhibit requirements in 807 KAR 5:001, Section 12, and the publication requirements in 807 KAR 5:011, Section 8(2)(b)3, respectively.

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<sup>1</sup> A copy of the Amended Application that Kentucky Power seeks to file is attached as Exhibit 1. For reference, a copy of the Amended Application showing the changes from the original Application is attached as Exhibit 2.

A. Motion to Amend

Kentucky Power seeks leave to amend the Application in this case for two reasons. First, the Company seeks to amend the Application to request approval of a new Biomass Energy Rider (Tariff B.E.R.) pursuant to KRS 278.271 to recover its costs for the purchase of renewable energy under the Renewable Energy Purchase Agreement (“REPA”) that is the subject of this case. In accordance with the original REPA, Kentucky Power planned to seek approval of the cost-recovery mechanism in the base rate case it filed on June 28, 2013 (Case 2013-00197). However, as part of Case 2012-00578, the Company on May 28, 2013 entered into a Memorandum of Understanding with Sierra Club and Kentucky Industrial Utility Customers, Inc. (“KIUC”) in the Mitchell Transfer Case (Case No. 2012-00578) that established a framework for settling that case. Subsequently, on July 2, 2013 the Company, Sierra Club and KIUC entered into a binding Stipulation and Settlement Agreement to settle the Mitchell Transfer case. Both the Memorandum of Understanding and the Stipulation and Settlement Agreement include a stay-out provision that requires the Company to withdraw its June 28, 2013 base rate case upon approval of the settlement. With the possibility that the base rate case could be withdrawn if the Stipulation and Settlement Agreement is approved by the Commission, ecoPower requested that the Company seek approval now of the cost-recovery mechanism as part of this case. ecoPower has informed the Company that approval of the cost-recovery mechanism is necessary to obtain third party financing.

Second, on June 28, 2013, the Company and ecoPower Generation – Hazard LLC entered into the First Amendment to the REPA. This amendment extended from October 15, 2013 to November 15, 2013 the date by which the Commission Approval Order, as defined in the REPA, must be received. The practical effect of this amendment is to extend the requested order date in

this case from September 11, 2013 to October 11, 2013 to provide additional time for the review of the both the REPA and Tariff B.E.R by the Commission and Intervenors .

For these reasons, the Company respectfully requests that the Commission grant it leave to file the Amended Application in this case.

B. Motion to Deviate – Financial Exhibit Requirements in 807 KAR 5:001, Section 12.

Kentucky Power also seeks authority to deviate from the financial exhibit requirements in 807 KAR 5:001, Section 12. Specifically, Kentucky Power seeks to deviate from the requirement that the exhibit reflect operations for a twelve month period with the period ending not more than ninety days prior to the date the application is filed. By its motion to deviate, Kentucky Power proposes to update the required financial exhibit to use an income statement and balance sheet from March 31, 2013. The March 31, 2013 income statement and balance sheet, are only four days beyond the period prescribed by the regulation, and are consistent with date used by the Company in in it recently filed rate application, thereby providing a meaningful basis for evaluation.<sup>2</sup>

C. Motion to Deviate – Publication Requirements in 807 KAR 5:011, Section 8(2)(b)(3).

Finally, Kentucky Power seeks authority to deviate from the notice requirements in 807 KAR 5:011, Section 8(2)(b)(3), as it relates to the timing of the publication. The regulation requires that, if notice of a tariff change is to be given via newspaper advertisement, the first publication be made by the date the filing is submitted. Kentucky Power seeks to deviate from

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<sup>2</sup> 807 KAR 5:001, Section(4)(5) provides that “[u]nless the Commission orders otherwise, the amendment shall not relate back to the date of the original paper.” Alternatively, the Company requests that the Amended Application relate back to the original filing date. Such a relation back would eliminate the need for a deviation from the requirements of 807 KAR 5:001, Section 12.

this requirement by making the first publication no later than July 17, 2013.<sup>3</sup> Kentucky Power seeks this deviation in an effort to file the motion to amend, and the amended application, at the earliest possible date. Strict compliance<sup>4</sup> with the “first publication” requirement of the regulation would delay the filing by as much as 14 days.

The requested deviation will not prejudice Kentucky Power’s customers or the Intervenors. The hearing in this case is scheduled for August 28, 2013 – eight weeks following the date of this filing. Additionally, Kentucky Power’s residential customers are already represented in this case by the Attorney General’s Office of Rate Intervention which has intervened on their behalf. Further, Kentucky Industrial Utility Customers, Inc. has intervened on behalf of certain industrial customers of the Company.

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

1. Granting it leave to amend the Application in this case and filing the proposed amended application;
2. Authorizing a deviation from the financial exhibit requirement in 807 KAR 5:001, Section 12 to allow the use of March 31, 2013 data for the Financial Exhibit; and
3. Authorizing a deviation from the publication requirements in 807 KAR 5:011, Section 8(2)(b)(3) to allow the first publication of the required newspaper notice no later than July 17, 2013; and

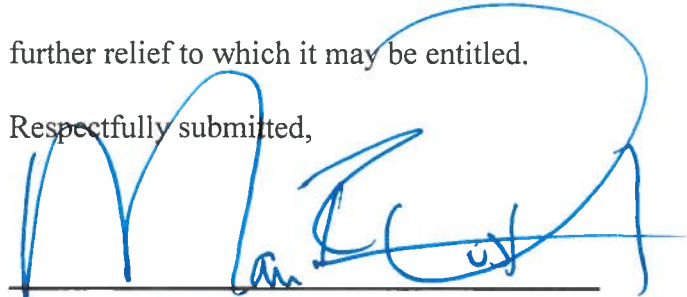
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<sup>3</sup> Notice will be published in newspapers of legal record in each of the 20 counties in Kentucky Power’s service territory. Some of the newspapers publish only on a weekly cycle. Although the notice is scheduled to be published as early as July 11, 2013, the first publication in at least one newspaper is not scheduled to occur until July 17, 2013.

<sup>4</sup> Because the application would not be deemed filed unless and until the Commission grants this motion, initial publication at any time on or prior to the date of the Commission’s order granting the amendment technically could meet the requirements of 807 KAR 5:011, Section 8(2)(b)(3). Nevertheless, to avoid the risk of the Commission granting the motion prior to July 17, 2013, the expected latest first publication date, the Company is seeking this deviation.

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to be 'Mark R. Overstreet', is written over a horizontal line. The signature is stylized and includes a large loop at the end.

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COUNSEL FOR:  
KENTUCKY POWER COMPANY

**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing was served as indicated below upon:


Michael L. Kurtz  
Jody Kyler Cohn  
Boehm, Kurtz & Lowry  
36 East Seventh Street, Suite 1510  
Cincinnati, Ohio 45202

Jennifer Black Hans  
Dennis G. Howard II  
Lawrence W. Cook  
Kentucky Attorney General's Office  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204

**By Overnight Delivery**

**By Overnight Delivery**

on this the 3<sup>rd</sup> day of July, 2013.



Mark R. Overstreet

**EXHIBIT 1**  
**(MOTION)**



**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In The Matter Of:

The Application Of Kentucky Power Company For:	)	
(1) The Approval Of The Terms And Conditions Of The	)	
Renewable Energy Purchase Agreement For Biomass	)	
Energy Resources Between The Company And	)	Case No. 2013-00144
ecoPower Generation-Hazard LLC; (2) Authorization	)	
To Enter Into The Agreement; (3) The Grant Of Certain	)	
Declaratory Relief; And (4) The Grant Of All	)	
Other Required Approvals and Relief	)	

**AMENDED VERIFIED APPLICATION**

Kentucky Power Company (“Kentucky Power” or the “Company”) moves the Public Service Commission of Kentucky (“Commission”) for an Order pursuant to KRS 278.300, KRS 278.271, 807 KAR 5:001, Section 14, and 807 KAR 5:001, Section 17: (i) approving the terms and conditions of the Renewable Energy Purchase Agreement For Biomass Energy Resources (“REPA”) between Kentucky Power and ecoPower Generation-Hazard LLC (“ecoPower”); (ii) approving and authorizing Kentucky Power to enter into the REPA; (iii) declaring<sup>1</sup> that the concurrent recovery by means of a monthly rider or surcharge to Kentucky Power’s rates of all costs associated with the REPA is appropriate;<sup>2</sup> (iv) approving the Biomass Energy Rider (Tariff

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<sup>1</sup> Although the amendment of the Company’s application to request approval of the cost-recovery tariff creates some overlap in this proceeding between the request for the declaratory order and the request for approval of the cost-recovery tariff, the Company continues to seek the indicated declaratory relief in this amended application to ensure the conditions precedent to the REPA are fulfilled.

<sup>2</sup> 807 KAR 5:001, Section 18 authorizes applications for declaratory orders. The regulation appears to be directed principally to stand-alone requests for declaratory relief, and thus provides for an expedited briefing of any such application. For example, absent a contrary Order from the Commission, any response to the request for declaratory relief would be due 21 days after the request is filed. 807 KAR 5:001, Section 18(4). Where, as here, the request for declaratory relief is coupled with an application for other substantive relief that typically involves a longer procedural schedule, the declaratory relief may be better handled in conformity with the existing procedural

B.E.R.); and (v) granting all other required relief or approvals. In support thereof Kentucky Power states:

### **Introduction**

1. In connection with its plan to chart a course to energy and capacity self-sufficiency and to meet the evolving burdens of environmental regulations, Kentucky Power has a unique opportunity to satisfy a portion of its needs by procuring energy and capacity from Kentucky-based biomass-fueled generation. Specifically, Kentucky Power has entered into, subject to further action by the Commission, the ecoPower REPA for 58.5 MW (net) of energy and capacity from biomass. The ecoPower REPA is associated with a facility to be located in the Company's service territory, will help diversify Kentucky Power's fuel use and generation portfolio, and should foster local economic development. Finally, the REPA is consistent with Strategy Two of Governor Beshear's November 2008 "Intelligent Choices For Kentucky's Future" Energy Plan. The ecoPower REPA is a reasonably necessary and appropriate way for Kentucky Power to diversify its fuel base and meet its customers' needs.

### **Applicant**

2. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919. A certified copy of Kentucky Power's Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149<sup>3</sup> as Exhibit 1. The post office address of Kentucky Power is 101A Enterprise Drive, P.O. 5190, Frankfort, Kentucky 40602-5190. Kentucky Power is engaged in the generation, purchase,

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schedule with respect to the other substantive relief (in this case KRS 278.300). To the extent the Commission determines to the contrary, Kentucky Power also requests a deviation, pursuant to 807 KAR 5:001, Section 21, from the schedule established by 807 KAR 5:001, Section 18 for applications for declaratory orders.

<sup>3</sup>*In the Matter of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149.

transmission, distribution, and sale of electric power. Kentucky Power serves approximately 173,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010. For purposes of this proceeding the electronic mail addresses of Kentucky Power is [lpmunsey@aep.com](mailto:lpmunsey@aep.com).

3. Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP.”) AEP is a multi-state public utility holding company whose operating companies provide electric utility service to customers in parts of eleven states – Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. AEP is not a party to this proceeding.

#### **Non-Party Entities**

4. ecoPower Generation-Hazard LLC (“ecoPower”) is a limited liability company organized under the laws of the Commonwealth of Kentucky, with its principal office located at 1265 Manchester Road, Lexington, Kentucky. ecoPower is a wholly owned subsidiary of ecoPower Generation LLC. By order dated May 18, 2010, ecoPower was authorized by the Kentucky State Board on Generation and Electric Transmission Siting to construct the nominal 58.5 MW (net) biomass power generating facility (“ecoPower facility”) and the associated 69 kV nonregulated transmission line in Perry County, Kentucky. ecoPower is the counterparty to the REPA for which Kentucky Power seeks approval in this Amended Application.

**AMENDED APPLICATION FOR APPROVAL  
PURSUANT TO KRS 278.300 OF THE REPA**

(a) The Transaction And Relief Requested.

5. On March 15, 2013, Kentucky Power entered into a 20-year REPA with ecoPower for the purchase by Kentucky Power of the entire capacity value (MW), electrical output (MWh), ancillary services, and environmental attributes of the ecoPower facility to be located in the Coal Fields Regional Industrial Park in Perry County, Kentucky. The REPA is subject to approval by this Commission, and Kentucky Power has the right under the agreement to terminate the REPA if it is not approved by the Commission. A summary of terms and conditions of the REPA is provided in the testimony of Company Witness Godfrey. The public and confidential versions of the REPA are attached as Exhibit JFG-1 (Public) and Exhibit JFG-1 (Confidential) to Company Witness Godfrey's testimony.

6. By this Amended Application, Kentucky Power is seeking only those approvals required under Article 6.1(A) of the REPA to consummate the transaction. The transaction remains subject to other conditions precedent and subsequent.

(b) The ecoPower Facility.

7. The ecoPower facility will be located approximately ten miles northwest of Hazard, Kentucky on 125 acres of a reclaimed coal mine. The ecoPower facility, as described in its application to the Kentucky State Board on Electric Generation and Transmission Siting in Case No. 2009-00530, will consist of one fluidized bed boiler and steam turbine generator, an air cooled condenser, material handling systems, ancillary equipment, several buildings, and a 1.54 mile 69 kV transmission line.

8. The boiler and steam turbine generator will produce a nominal 58.5 MW (net) electrical output. The ecoPower facility will use atmospheric fluidized bed combustion technology, and will be fueled with biomass, including sawdust, bark, wood chips, tip wood, and low-quality logs.

(c) Significant Contract Terms.

9. Beginning on the Commercial Operation Date, as defined in the REPA, Kentucky Power is obligated to purchase and pay for, at the Contract Rate, as defined in the REPA, all renewable energy generated by the ecoPower facility up to 62.5 MW at the meter bar in any hour.

10. Kentucky Power's obligations under the REPA are expressly contingent upon Kentucky Power's receipt of a final and non-appealable "Commission Approval Order." Under the REPA, as amended on June 28, 2013, Kentucky Power must receive a final and nonappealable Commission Approval Order by November 15, 2013.<sup>4</sup> The REPA was amended to permit full review of the Company's Amended Application. The REPA also will terminate automatically, subject to a limited cure provision, if the Company is ever denied full recovery of its costs in retail rates.

11. The Contract Price paid by Kentucky Power under the REPA will escalate by a fixed percentage each year during the term of the agreement. In the first year of the REPA, Kentucky Power estimates, based upon 2012 jurisdictional revenues, that the Company's revenue requirement would increase by approximately seven percent. In addition, and although

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<sup>4</sup> The First Amendment to the REPA is being executed. Kentucky Power will file the First Amendment to the REPA with this Commission when it is fully executed. Kentucky Power anticipates making this filing during the week of July 8, 2013.

the Company believes it has taken reasonable steps to limit the risk, the REPA could also result in an increase in the Company's cost of capital depending on regulatory treatment and other factors. If the ecoPower facility qualifies for the Section 45 Production Tax Credit the Contract Price will be adjusted downward.

12. The REPA provides that Kentucky Power is to receive all current and future environmental attributes of the ecoPower facility, including the associated Renewable Energy Certificates ("REC"). RECs are tradable, non-tangible, energy commodities in the United States that represent proof that one MWh of electricity was generated from an eligible renewable energy resource.

13. Subject to the termination provisions of the agreement, the term of the REPA is 20 years.

14. Under the REPA, ecoPower is required to establish and maintain a Seller Performance Fund to secure its financial obligations to Kentucky Power under the REPA.

(d) The REPA Satisfies The Requirements Of KRS 278.300

(i) The Role Of Renewable Generation.

15. AEP has included reasonably priced renewable generation within the supply side options it considers in planning for the future capacity and energy needs of its operating companies. In its 2009 Integrated Resource Plan, for example, Kentucky Power assumed that AEP would seek to acquire by the close of 2012 renewable resources equal to at least seven percent of AEP's energy sales.

16. Driving these goals in part have been increasing governmental mandates, including the imposition in jurisdictions other than Kentucky of Renewable Portfolio Standards (“RPS”) for electric generation.

17. Even those states, such as Kentucky, that have yet to adopt a RPS are promoting the increased use of renewable fuels. For example, on November 20, 2008, Governor Steve Beshear announced his comprehensive energy plan, entitled, *Intelligent Energy Choices for Kentucky’s Future*. Among the seven strategies included in the plan was an increase in Kentucky’s renewable energy generation to 1000 MW by 2025. <http://www.governor.ky.gov/NR/rdonlyres/32B6DCAF-57F5-49DC-B9F3-4E889746CBB0/0/20081120energyFactSheet.pdf>. Strategy 2 under the Governor’s Plan notes that Kentucky “has great potential for producing energy from woody biomass,” such as will be used at the ecoPower facility.

18. Similarly, in the 2009 General Assembly, House Majority Leader, Representative Adkins, introduced HB 537. The bill would have established a Renewable Energy and Efficiency Standard for Kentucky. Among the requirements that would have been imposed by the standard was an increase in Kentucky’s renewable generation to 1000 MW by 2025. <http://www.lrc.ky.gov/record/09RS/HB537/bill.doc> The bill was not enacted. HB 3 and HB 428, which were introduced in the 2010 General Assembly, likewise would have established renewable or clean energy standards. In particular, HB 3 would have required renewable energy to be generated within the Commonwealth. The bills were not enacted.

19. Most recently, the 2013 Kentucky General Assembly recognized the importance of Kentucky-based biomass energy facilities through enactment of Senate Bill 46, which

prescribes certainty in the ratemaking treatment accorded purchase power agreements (“PPAs”) for the purchase of electric power from such facilities. In addition, Section 2 of Senate Bill 46 prescribes that the bill was to become effective immediately in accordance with Section 55 of the Kentucky Constitution upon its approval by the Governor in light of the “vital importance for the Commonwealth to incent [biomass energy] businesses to advance the goal of energy independence and new jobs...” Senate Bill 46 has been codified as KRS 278.271.

- (ii) The Financial Obligations Assumed By Kentucky Power Under The REPA Are For A Lawful Object Within Kentucky Power’s Corporate Purposes.

20. Kentucky Power is a corporation organized under the laws of the Commonwealth of Kentucky. It is regulated by the Commission and, pursuant to Kentucky’s Certified Territory Statutes, KRS 278.016-278.018, possesses the exclusive right and obligation to provide retail electric service within its certified territory in parts of 20 counties in Kentucky.

21. The financial obligations assumed by Kentucky Power under the REPA are in connection with a long-term contract for the purchase of capacity and energy to meet Kentucky Power’s obligation, as an electric utility providing service within its certified territory within the Commonwealth of Kentucky, to provide adequate, efficient and reasonable service to its Kentucky customers. KRS 278.030. As such, the REPA, and Kentucky Power’s financial obligations under the REPA, are for a lawful object within the Company’s corporate purpose.



- (iii) The Financial Obligations Assumed By Kentucky Power Under the REPA Are Necessary And Appropriate For, And Consistent With, The Provision Of Electric Service By Kentucky Power In Its Certified Territory.

22. The ecoPower facility will diversify Kentucky Power's fuel use and generation. The ecoPower facility will be located in the Company's service territory and is expected to generate approximately 230 construction jobs over the two-year construction period. The Company is informed that the facility is expected to provide jobs for an estimated 30 full time employees and approximately 225 timber and trucking related jobs. In addition, the facility is likely to foster local economic development.

23. As a result, the financial obligations assumed by Kentucky Power under the REPA are necessary and appropriate for, and consistent with, Kentucky Power's provision of electric service.

- (iv) The Financial Obligations Assumed By Kentucky Power Under The REPA Will Not Impair Its Ability To Provide Adequate, Efficient and Reasonable Electric Service In The Commonwealth Of Kentucky.

24. Under the terms of the REPA, Kentucky Power may terminate the agreement if it is unable at any time during the term of the REPA to recover all of the jurisdictional costs associated with the REPA. Thus, the financial obligations associated with the REPA will be recovered through the Company's rates and will not impair Kentucky Power's ability to provide electric service.

- (v) The Financial Obligations Assumed By Kentucky Power Under The REPA Are Reasonably Necessary And Appropriate For The Provision Of Electric Service By The Company.

25. Given the implementation by 29 states and the District of Columbia of RPS, the implementation by eight additional states of renewable portfolio goals,<sup>5</sup> legislative efforts in the United States Congress and the Kentucky General Assembly to enact such standards, and the inclusion by Governor Beshear of renewable goals in his comprehensive energy plan, it is increasingly likely that within the 20-year term of the REPA Kentucky Power will be subject to RPS or other limitations on its use of coal-fired generation to meet its capacity and energy needs. It thus is reasonably necessary and appropriate for Kentucky Power to begin to acquire Kentucky-based renewable energy resources such as those available through the REPA.

26. Based upon these considerations, the financial obligations associated with the REPA are reasonably necessary and appropriate for the provision of electric service by Kentucky Power.

- (f) Regulatory Requirements – 807 KAR 5:001, Section 17.

27. A general description of Kentucky Power's property and its field of operation, together with the statement of its original cost and its cost to Kentucky Power, was attached as EXHIBIT 1 to the Company's April 10, 2013 Application and incorporated by reference herein. [807 KAR 5:001, Section 17(1)(a).]

28. Kentucky Power will not issue any stock or bonds as a part of entering into the ecoPower REPA. Under existing Commission authority the REPA constitutes an evidence of indebtedness. [807 KAR 5:001, Section 17(1)(b).]

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<sup>5</sup> <http://www.eia.gov/todayinenergy/detail.cfm?id=4850> .

29. Kentucky Power is entering into the ecoPower REPA as a necessary and appropriate method of diversifying its generation base and meeting its customers' needs. The ecoPower REPA is described in more detail above. [807 KAR 5:001, Section 17(1)(c).]

30. Kentucky Power is not acquiring any property, but instead entering into the ecoPower REPA. The REPA provides that Kentucky Power will, after the effective date of the agreement, purchase all renewable energy from the ecoPower facility and receive all RECs associated with that energy. A copy of the ecoPower REPA was filed with the Company's April 10, 2013 Application as Exhibit JFG-1 (Confidential) and Exhibit JFG-1 (Public) to the testimony of Company Witness Godfrey, and incorporated by reference herein. [807 KAR 5:001, Section 17(1)(d).]

31. Kentucky Power is not proposing to discharge or refund obligations as part of this Amended Application. [807 KAR 5:001, Section 17(1)(e).]

32. The required financial exhibits are described below in Paragraphs 35-41. [807 KAR 5:001, Section 17(2)(a).]

33. There are no outstanding trust deeds or mortgages relating to Kentucky Power or its property. [807 KAR 5:001, Section 17(2)(b).]

34. The information required by 807 KAR 5:001, Section 17(2)(c) is attached as Exhibit JFG-4 to the testimony of Company Witness Godfrey.

(g) Regulatory Requirements – 807 KAR 5:001, Section 12 (Financial Exhibit).<sup>6</sup>

35. Kentucky Power has the following stock authorized, issued and outstanding:

(a) Common Stock: 2,000,000,000 shares authorized and 1,009,000 shares outstanding. [807 KAR 5:001, Section 12(1), (2)]; and

(b) Kentucky Power has no authorized preferred stock. [807 KAR 5:001, Section 12(3).]

36. There are no mortgages encumbering Kentucky Power's property. [807 KAR 5:001, Section 12(4).]

37. The bonds identified in EXHIBIT 2 to the Company's April 10, 2013 Application, and incorporated by reference herein, constitute the Company's authorized and issued bonds. [807 KAR 5:001, Section 12(5).]

38. The note identified in EXHIBIT 2 to the Company's April 10, 2013 Application, and incorporated by reference herein, constitutes the Company's existing note. [807 KAR 5:001, Section 12(6).]

39. Kentucky Power has no other indebtedness outstanding. [807 KAR 5:001, Section 12(7).]

40. During the past five years Kentucky Power paid the dividends identified in EXHIBIT 2 to the Company's April 10, 2013 Application, which is incorporated by reference herein. [807 KAR 5:001, Section 12(8).]

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<sup>6</sup> 807 KAR 5:001, Section 17(2)(a).

41. A detailed income statement and a detailed balance sheet for Kentucky Power for the twelve month period ending March 31, 2013 are attached as EXHIBIT 3 and EXHIBIT 4 respectively. [807 KAR 5:001, Section 12(9).]

### DECLARATORY ORDER

42. Paragraph 6.1(A) of the REPA provides that Kentucky Power may terminate the REPA if the Company has not received a “Commission Approval Order” by November 15, 2013. The REPA further defines the term “Commission Approval Order” as a final, non-appealable order from this Commission that, *inter alia*, “declares that concurrent recovery of costs associated with this REPA through Kentucky retail rates via a monthly rider or a monthly surcharge to base rates is appropriate....”

43. The declaratory order provided for by paragraph 6.1(A) is required because credit rating agencies treat PPAs such as the REPA as fixed, debt-like financial obligations that represent substitutes for capital investments by the utility. As such, PPA obligations, in the form of capacity payments, may be incorporated in credit rating agencies’ assessment of the utility’s creditworthiness. This is done by imputing a portion of the net present value of the stream of capacity payments as a debt obligation of the utility for purposes of evaluating the utility’s credit statistics. Where, as under the ecoPower REPA, there is not a separate capacity charge, the rating agencies indicate they use an implied capacity payment in their evaluation.

44. The portion of the net present value of the capacity payments, whether stated or implied, that are imputed as a debt obligation is calculated by the credit rating agencies based on their assessment of the “risk factors” associated with the utility’s ability to recover the payments.

45. The Company understands that a regulatory mechanism that provides for concurrent and full recovery through a rider or surcharge of the payments made under the REPA, coupled with the protections afforded by Senate Bill 46, will limit the “risk factors” assigned the REPA by credit rating agencies, and hence the percentage of the net present value of Kentucky Power’s implied capacity payments under the REPA that will be imputed to the Company as debt by the agencies. As such, it is in the interest of Kentucky Power’s customers, ecoPower, and the Company itself to obtain the earliest possible declaration from this Commission that a rider or surcharge to base rates that permits the Company to recover concurrently its full payments under the REPA is appropriate.

46. In response to the methodology employed by credit rating agencies in evaluating PPAs, Kentucky Power included as part of the ecoPower REPA certain provisions designed to minimize to the extent possible the “risk factors” employed by credit rating agencies in evaluating the REPA. These include both the right under paragraph 6.1(A) to terminate the REPA if the Company does not receive the declaratory order sought in this Amended Application, and the further right under paragraphs 6.1(B), 6.1(C), and 6.1(D), and the definition of “Cost Recovery Order,” to terminate the REPA, subject to limited cure provisions, if the Company is ever denied full concurrent recovery of its costs under the REPA by means of a rider or surcharge to base rates.

**APPROVAL OF BIOMASS ENERGY RIDER  
UNDER KRS 278.271**

47. As recognized by the Kentucky Supreme Court in *Kentucky Public Service Commission v. Commonwealth ex rel. Conway*, 324 S.W.3d 373 (Ky. 2010), the Commission is empowered by its plenary ratemaking authority to establish a rider or surcharge to base rates so long as the resulting rates are fair, just and reasonable.

48. The 2013 Regular Session of the Kentucky General Assembly enacted Senate Bill 46. Senate Bill 46 was signed into law by Governor Beshear on March 5, 2013 and later codified at KRS 278.271. As provided in Section 2 of the act, Senate Bill 46 became effective upon its approval by the Governor.

49. KRS 278.271 empowers the Commission, upon application by a regulated utility, to “allow recovery of costs which are not recovered in the existing rates of a utility for the purchase of electric power from a biomass energy facility that has received a certificate from the Kentucky State Board on Electric Generation and Transmission Siting ...” upon the determination by the Commission that the full costs of the purchase power agreement over the full term of the agreement are fair, just and reasonable. Any such approval by the Commission of a biomass purchase power agreement is valid for the entire initial term of the agreement.

50. Kentucky Power seeks the Commission’s approval of a new Biomass Energy Rider (Tariff B.E.R.) pursuant to KRS 278.271 to recover its costs for the purchase of renewable energy under the REPA. Tariff B.E.R. is filed as EXHIBIT 5 to this Amended Application and further discussed in the Supplemental Testimony of Company Witness Wohnhas as Exhibit RKW-1S. The Biomass Energy Rider develops a Monthly Biomass Adjustment Factor (in \$/kWh) based on a ratio of the price paid for purchases under the REPA during the month to the Company’s total energy sales during the month, excluding intersystem sales. The Monthly Biomass Energy Factor is then applied to a customer’s bill. If approved, Tariff B.E.R. would become effective the first month in which energy is delivered to the Company under the REPA. Charges would appear on customer bills approximately two months later.

51. The ecoPower Facility is consistent with and advances the policy established by the legislature in KRS 154.27-020(2) through the development of an innovative energy-related business that advances the public purposes of achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenues. It likewise is consistent with and furthers the policies underlying KRS 278.271.

52. The Biomass Energy Rider (Tariff B.E.R) will allow the recovery of costs, not recovered in the Company's existing rates, for the purchase of electric power from the ecoPower biomass energy facility, a facility that has received a certificate from the Kentucky State Board on Electric Generation and Transmission Siting in Case No. 2009-00530. The requirements of KRS 278.271 will be satisfied in full upon approval by the Commission in this proceeding of the REPA.

53. The full costs the REPA, a copy of which is attached as Exhibit JFG-1 (Public) and Exhibit JFG-1 (Confidential) to Company Witness Godfrey's testimony, over its full term are fair just and reasonable.

#### **Requested Date for Final Order**

54. Kentucky Power requests that the Commission issue an order granting the requested relief no later than October 11, 2013. The issuance of an order by October 11, 2013 is a necessary predicate for there to be a final and non-appealable order issued on or before November 15, 2013 as required by paragraph 6.1(A) of the REPA.



**Exhibits and Testimony**

55. The exhibits and testimony listed in the Appendix to this Amended Application are attached to, or incorporated in, and made a part of this Amended Application.

**Communications**

56. The Applicant respectfully requests that communications in this matter be addressed to:

Mark R. Overstreet  
R. Benjamin Crittenden  
STITES & HARBISON PLLC  
421 West Main Street  
P.O. Box 634  
Frankfort, Kentucky 40602-0634  
[moverstreet@stites.com](mailto:moverstreet@stites.com)  
[rcrittenden@stites.com](mailto:rcrittenden@stites.com)

Kenneth J. Gish, Jr.  
STITES & HARBISON PLLC  
250 West Main Street, Suite 2300  
Lexington, Kentucky 40507-1758  
[kgish@stites.com](mailto:kgish@stites.com)

Ranie K. Wohnhas  
Kentucky Power Company  
P.O. Box 5190  
Frankfort, Kentucky 40602-5190

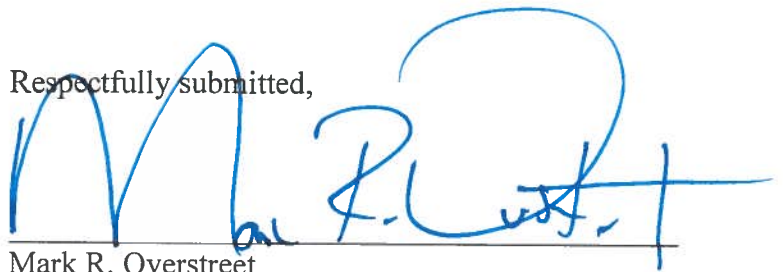
ON BEHALF OF KENTUCKY POWER COMPANY

**WHEREFORE**, Kentucky Power Company requests that the Commission issue on or before October 11, 2013 an Order pursuant to KRS 278.300, KRS 278.271 and all other applicable provisions:

(a) approving the terms and conditions of the REPA between Kentucky Power and ecoPower;

- (b) approving and authorizing Kentucky Power to enter into the REPA;
- (c) declaring that the concurrent recovery by means of a monthly rider or surcharge to Kentucky Power's rates of all costs associated with the REPA is appropriate;
- (d) approving the Biomass Energy Rider (Tariff B.E.R.); and
- (e) granting all other required or requested relief or approvals.

Respectfully submitted,



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Lexington, Kentucky 40507-1758  
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Facsimile: (859) 425-7996  
[kgish@stites.com](mailto:kgish@stites.com)

COUNSEL FOR:  
KENTUCKY POWER COMPANY

**VERIFICATION**

The undersigned, Ranie K. Wohnhas being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power Company, 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.

  
\_\_\_\_\_   
Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY     )  
   ) Case No. 2013-00144  
COUNTY OF FRANKLIN            )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 20<sup>th</sup> day of June 2013.

  
\_\_\_\_\_   
Notary Public

My Commission Expires: January 23, 2017

**CERTIFICATE OF SERVICE**

I hereby certify that a true and accurate copy of the foregoing was served as indicated below upon:


Michael L. Kurtz  
Jody Kyler Cohn  
Boehm, Kurtz & Lowry  
36 East Seventh Street, Suite 1510  
Cincinnati, Ohio 45202

By Overnight Delivery

Jennifer Black Hans  
Dennis G. Howard II  
Lawrence W. Cook  
Kentucky Attorney General's Office  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204

By Overnight Delivery

on this the 3<sup>rd</sup> day of July, 2013.



Mark R. Overstreet

## APPENDIX

### TESTIMONY

<u>Witness</u>	<u>Subject Matter</u>
Greg G. Pauley	An overview of this Application and the REPA. [Incorporated by reference from the Company's April 10, 2013 Application.]
Jay F. Godfrey	Describes the proposed REPA between Kentucky Power and ecoPower. [Incorporated by reference from the Company's April 10, 2013 Application.]
Ranie K. Wohnhas	Provides an overview of the estimated customer rate impact of the proposed REPA.; describes the recovery of REPA costs through Tariff B.E.R. [Incorporated by reference from the Company's April 10, 2013 Application.]

### LIST OF EXHIBITS

- EXHIBIT 1: General description of Kentucky Power's property, the Company's field of operation, and cost information (Paragraph 27 of the Application). [Incorporated by reference from the Company's April 10, 2013 Application]
- EXHIBIT 2: Information regarding bonds, note, and dividends paid (Paragraphs 37, 38, and 40 of the Application). [Incorporated by reference from the Original April 10, 2013 Application]
- EXHIBIT 3: Detailed income statement of Kentucky Power for the twelve-month period ended March 31, 2013 (Paragraph 41 of the Application). [Updated with the Amended Application]
- EXHIBIT 4: Detailed balance sheet of Kentucky Power for the twelve-month period ended March 31, 2013(Paragraph 41 of the Application). [Updated with the Amended Application]
- EXHIBIT 5: Proposed Biomass Energy Rider (Tariff B.E.R.) (Paragraph 50).

**AMENDED VERIFIED APPLICATION EXHIBIT 3**

**Kentucky Power Company**  
**Statement of Income**  
**Twelve Month Period Ending March 31, 2013**

**UNAUDITED**

	12 Months Ending March 31, 2013
<b>REVENUES</b>	
Revenue - Retail Sales	501,709,715
Revenue - Transmission	7,410,481
Revenue - Sales for Resale	117,566,481
Revenue - Other Operating	14,300,328
Revenue - Power Sales	304,671
<b>TOTAL OPERATING REVENUES</b>	<b>641,291,676</b>
<b>FUEL EXPENSES</b>	
Total Fuel for Electric Generation	117,717,406
Total Purchased Power	240,439,234
<b>GROSS MARGIN</b>	<b>283,135,036</b>
<b>OPERATING EXPENSES</b>	
Operational Expenses	59,025,195
Maintenance Expenses	39,367,685
Depreciation and Amortization	55,919,561
Taxes Other Than Income Taxes	12,158,269
<b>TOTAL OPERATING EXPENSES</b>	<b>166,470,710</b>
<b>OPERATING INCOME</b>	<b>116,664,326</b>
<b>NON-OPERATING INCOME / (EXPENSES)</b>	
Total Interest & Dividend Income	167,035
Interest & Dividend Carrying Charge	89,758
AFUDC	1,136,313
Total Interest Charges	(35,898,328)
<b>INCOME BEFORE INCOME TAXES</b>	<b>82,159,104</b>
<b>INCOME TAXES</b>	
Federal Income Taxes	22,683,382
State Income Taxes	2,754,085
<b>Total Income Taxes</b>	<b>25,437,467</b>
<b>NET INCOME</b>	<b>56,721,637</b>

**AMENDED VERIFIED APPLICATION EXHIBIT 4**



Kentucky Power Company  
Balance Sheet  
As of March 31, 2013  
**UNAUDITED**

	As of March 31, 2013
<b>ASSETS</b>	
Cash and Cash Equivalents	861,534
Accounts Receivable	25,817,721
Fuel, Materials and Supplies	69,594,047
Risk Management Contracts - Current	4,621,886
Margin Deposits	1,816,791
Unrecovered Fuel - Current	16,631
Prepayments and Other Current Assets	3,718,900
<b>TOTAL CURRENT ASSETS</b>	<b>106,447,510</b>
Electric Production	560,292,077
Electric Transmission	490,860,564
Electric Distribution	663,709,980
General Property, Plant and Equipment	64,382,944
Construction Work-in-Progress	43,807,564
<b>TOTAL PROPERTY, PLANT and EQUIPMENT</b>	<b>1,823,053,129</b>
less: Accumulated Depreciation and Amortization	(613,218,731)
<b>NET PROPERTY, PLANT and EQUIPMENT</b>	<b>1,209,834,398</b>
Net Regulatory Assets	214,240,206
Long-Term Risk Management Assets	4,948,523
Other Non Current Assets	45,536,568
<b>TOTAL OTHER NON-CURRENT ASSETS</b>	<b>264,725,297</b>
<b>TOTAL ASSETS</b>	<b>1,581,007,205</b>
<b>LIABILITIES</b>	
Accounts Payable	39,974,194
Advances from Affiliates	11,039,250
Risk Management Liabilities	2,379,578
Accrued Taxes	8,009,392
Accrued Interest	5,575,175
Deposits - Customer and Collateral	23,957,664
Other Current Liabilities	19,342,012
<b>TOTAL CURRENT LIABILITIES</b>	<b>110,277,265</b>
Long-Term Debt - Affiliated	20,000,000
Long-Term Debt - Non Affiliated	530,000,000
Long-Term Debt - Premiums and Discounts Unamort	(736,369)
Long-Term Risk Management Liabilities	2,630,080
Deferred Income Taxes	362,229,217
Deferred Investment Tax Credits	298,257
Regulatory Liabilities and Deferred Credits	25,258,403
Asset Retirement Obligation	3,980,233
Employee Benefits and Pension Obligations	32,124,128
Other Non-Current Liabilities	4,605,987
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>980,389,936</b>
<b>TOTAL LIABILITIES</b>	<b>1,090,667,201</b>
<b>COMMON SHAREHOLDERS' EQUITY</b>	
Common Stock	50,450,000
Paid In Capital	238,750,000
Retained Earnings	201,330,503
Accumulated Other Comprehensive Income (Loss)	(190,499)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>490,340,004</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,581,007,205</b>

**AMENDED VERIFIED APPLICATION EXHIBIT 5**

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 10 ORIGINAL SHEET NO. 19-1  
CANCELING P.S.C. KY. NO. 10 \_\_\_\_\_ SHEET NO. 19-1**TARIFF B. E. R.**  
**(Biomass Energy Rider)****APPLICABLE.**

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

**RATE.**

1. When energy is generated and sold to the Company from the ecoPower biomass facility, an additional charge equal to the product of the kWh of sales and a biomass adjustment factor (A) shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatt-hour, is defined as set forth below.

$$\text{Biomass Adjustment Factor (A)} = (R * P_m) / S_m$$

In the above formulas "R" is the rate for the current calendar year approved by this commission in the REPA between ecoPower and Kentucky Power Company, "P" is the amount of kwh purchased by Kentucky Power Company in the current (m) period, and "S" is the kWh sales in the current (m) period, all defined below.

2. Rate (R) shall be the dollar per MWh as defined in the REPA between ecoPower and Kentucky Power Company, including any applicable escalation factor as defined in the REPA.
3. Produced energy (P) shall be the MWh produced and sold to Kentucky Power Company.
4. Sales (S) shall be all kWh sold, excluding intersystem sales. Utility used energy shall not be excluded in the determination of sales (S).
5. The monthly bio mass energy rider shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustment, which shall include data, and information as may be required by the Commission.
6. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE XXXXXXXDATE EFFECTIVE SERVICE RENDERED ON AND AFTER XXXXXXISSUED BY Lila P. MunseyTITLE: MANAGER OF REGULATORY SERVICES

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

IN CASE NO. XXX-XXXX DATED

**EXHIBIT 2**

**(MOTION)**

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In The Matter Of:

The Application Of Kentucky Power Company For:	)	
(1) The Approval Of The Terms And Conditions Of The	)	
Renewable Energy Purchase Agreement For Biomass	)	
Energy Resources Between The Company And	)	Case No. 2013-00144
ecoPower Generation-Hazard LLC; (2) Authorization	)	
To Enter Into The Agreement; (3) The Grant Of Certain	)	
Declaratory Relief; And (4) The Grant Of All	)	
Other Required Approvals and Relief	)	

**AMENDED VERIFIED APPLICATION**

Kentucky Power Company (“Kentucky Power” or the “Company”) moves the Public Service Commission of Kentucky (“Commission”) for an Order pursuant to KRS 278.300, [KRS 278.271](#), 807 KAR 5:001, Section 14, and 807 KAR 5:001, Section 17: (i) approving the terms and conditions of the Renewable Energy Purchase Agreement For Biomass Energy Resources (“REPA”) between Kentucky Power and ecoPower Generation-Hazard LLC (“ecoPower”); (ii) approving and authorizing Kentucky Power to enter into the REPA; (iii) declaring<sup>1</sup> that the concurrent recovery by means of a monthly rider or surcharge to Kentucky Power’s rates of all costs associated with the REPA is appropriate;<sup>+2</sup> ~~and (iv)~~ [\(iv\) approving the Biomass Energy Rider](#)

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<sup>1</sup> [Although the amendment of the Company’s application to request approval of the cost-recovery tariff creates some overlap in this proceeding between the request for the declaratory order and the request for approval of the cost-recovery tariff, the Company continues to seek the indicated declaratory relief in this amended application to ensure the conditions precedent to the REPA are fulfilled.](#)

<sup>+2</sup> 807 KAR 5:001, Section 18 authorizes applications for declaratory orders. The regulation appears to be directed principally to stand-alone requests for declaratory relief, and thus provides for an expedited briefing of any such application. For example, absent a contrary Order from the Commission, any response to the request for declaratory relief would be due 21 days after the request is filed. 807 KAR 5:001, Section 18(4). Where, as here, the request for declaratory relief is coupled with an application for other substantive relief that typically involves a longer procedural schedule, the declaratory relief may be better handled in conformity with ~~any~~ [the existing](#) procedural schedule ~~that is entered in connection with the Company’s request for~~ [with respect to](#) the other substantive relief (in this case KRS 278.300). To the extent the Commission determines to the contrary, Kentucky Power also requests a deviation,

(Tariff B.E.R.); and (v) granting all other required relief or approvals. In support thereof Kentucky Power states:

### **Introduction**

1. In connection with its plan to chart a course to energy and capacity self-sufficiency and to meet the evolving burdens of environmental regulations, Kentucky Power has a unique opportunity to satisfy a portion of its needs by procuring energy and capacity from Kentucky-based biomass-fueled generation. Specifically, Kentucky Power has entered into, subject to further action by the Commission, the ecoPower REPA for 58.5 MW (net) of energy and capacity from biomass. The ecoPower REPA is associated with a facility to be located in the Company's service territory, will help diversify Kentucky Power's fuel use and generation portfolio, and should foster local economic development. Finally, the REPA is consistent with Strategy Two of Governor Beshear's November 2008 "Intelligent Choices For Kentucky's Future" Energy Plan. The ecoPower REPA is a reasonably necessary and appropriate way for Kentucky Power to diversify its fuel base and meet its customers' needs.

### **Applicant**

2. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919. A certified copy of Kentucky Power's Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149<sup>23</sup> as Exhibit 1. The post office address of Kentucky Power is 101A Enterprise Drive, P.O.

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pursuant to 807 KAR 5:001, Section 21, from the schedule established by 807 KAR 5:001, Section 18 for applications for declaratory orders.

<sup>23</sup>*In the Matter of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger, P.S.C. Case No. 99-149.*

5190, Frankfort, Kentucky 40602-5190. Kentucky Power is engaged in the generation, purchase, transmission, distribution, and sale of electric power. Kentucky Power serves approximately 173,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined at KRS 278.010. For purposes of this proceeding the electronic mail addresses of Kentucky Power ~~are set forth in paragraph 53 of this Application~~ is [lpmunsey@aep.com](mailto:lpmunsey@aep.com).

3. Kentucky Power is a direct, wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP.”) AEP is a multi-state public utility holding company whose operating companies provide electric utility service to customers in parts of eleven states – Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. AEP is not a party to this proceeding.

#### **Non-Party Entities**

4. ecoPower Generation-Hazard LLC (“ecoPower”) is a limited liability company organized under the laws of the Commonwealth of Kentucky, with its principal office located at 1265 Manchester Road, Lexington, Kentucky. ecoPower is a wholly owned subsidiary of ecoPower Generation LLC. By order dated May 18, 2010, ecoPower was authorized by the Kentucky State Board on Generation and Electric Transmission Siting to construct the nominal 58.5 MW (net) biomass power generating facility (“ecoPower facility”) and the associated 69 kV

nonregulated transmission line in Perry County, Kentucky. ecoPower is the counterparty to the REPA for which Kentucky Power seeks approval in this ~~application~~ Amended Application.

**AMENDED APPLICATION FOR APPROVAL  
PURSUANT TO KRS 278.300 OF THE REPA**

(a) The Transaction And Relief Requested.

5. On March 15, 2013, Kentucky Power entered into a 20-year REPA with ecoPower for the purchase by Kentucky Power of the entire capacity value (MW), electrical output (MWh), ancillary services, and environmental attributes of the ecoPower facility to be located in the Coal Fields Regional Industrial Park in Perry County, Kentucky. The REPA is subject to approval by this Commission, and Kentucky Power has the right under the agreement to terminate the REPA if it is not approved by the Commission. A summary of terms and conditions of the REPA is provided in the testimony of Company Witness Godfrey. The public and confidential versions of the REPA are attached as Exhibit JFG-1 (Public) and Exhibit JFG-1 (Confidential) to Company Witness Godfrey's testimony.

6. By this Amended Application, Kentucky Power is seeking only those approvals required under Article 6.1(A) of the REPA to consummate the transaction. The transaction remains subject to other conditions precedent and subsequent.

(b) The ecoPower Facility.

7. The ecoPower facility will be located approximately ten miles northwest of Hazard, Kentucky on 125 acres of a reclaimed coal mine. The ecoPower facility, as described in its application to the Kentucky State Board on Electric Generation and Transmission Siting in Case No. 2009-00530, will consist of one fluidized bed boiler and steam turbine generator, an air cooled



condenser, material handling systems, ancillary equipment, several buildings, and a 1.54 mile 69 kV transmission line.

8. The boiler and steam turbine generator will produce a nominal 58.5 MW (net) electrical output. The ecoPower facility will use atmospheric fluidized bed combustion technology, and will be fueled with biomass, including sawdust, bark, wood chips, tip wood, and low-quality logs.

(c) Significant Contract Terms.

9. Beginning on the Commercial Operation Date, as defined in the REPA, Kentucky Power is obligated to purchase and pay for, at the Contract Rate, as defined in the REPA, all renewable energy generated by the ecoPower facility up to 62.5 MW at the meter bar in any hour.

10. Kentucky Power's obligations under the REPA are expressly contingent upon Kentucky Power's receipt of a final and non-appealable "Commission Approval Order," ~~as that term is defined in the REPA, by October 15, 2013.~~ Under the REPA, as amended on June 28, 2013, Kentucky Power must receive a final and nonappealable Commission Approval Order by November 15, 2013.<sup>4</sup> The REPA was amended to permit full review of the Company's Amended Application. The REPA also will terminate automatically, subject to a limited cure provision, if the Company is ever denied full recovery of its costs in retail rates.

11. The Contract Price paid by Kentucky Power under the REPA will escalate by a fixed percentage each year during the term of the agreement. In the first year of the REPA,

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<sup>4</sup> The First Amendment to the REPA is being executed. Kentucky Power will file the First Amendment to the REPA with this Commission when it is fully executed. Kentucky Power anticipates making this filing during the week of

Kentucky Power estimates, based upon 2012 jurisdictional revenues, that the Company's revenue requirement would increase by approximately seven percent. In addition, and although the Company believes it has taken reasonable steps to limit the risk, the REPA could also result in an increase in the Company's cost of capital depending on regulatory treatment and other factors. If the ecoPower facility qualifies for the Section 45 Production Tax Credit the Contract Price will be adjusted downward.

12. The REPA provides that Kentucky Power is to receive all current and future environmental attributes of the ecoPower facility, including the associated Renewable Energy Certificates ("REC"). RECs are tradable, non-tangible, energy commodities in the United States that represent proof that one MWh of electricity was generated from an eligible renewable energy resource.

13. Subject to the termination provisions of the agreement, the term of the REPA is 20 years.

14. Under the REPA, ecoPower is required to establish and maintain a Seller Performance Fund to secure its financial obligations to Kentucky Power under the REPA.

~~———— (d) ——— Senate Bill 46~~

~~15. ——— The 2013 Regular Session of the Kentucky General Assembly enacted Senate Bill 46. Senate Bill 46 was signed into law by Governor Beshear on March 5, 2013. As provided in Section 2 of the act, Senate Bill 46 became effective upon its approval by the Governor.~~

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[July 8, 2013.](#)

~~16.—Senate Bill 46 empowers the Commission to “allow recovery of costs which are not recovered in the existing rates of a utility for the purchase of electric power from a biomass energy facility that has received a certificate from the Kentucky State Board on Electric Generation and Transmission Siting ...” upon the determination by the Commission that the full costs of the purchase power agreement over the full term of the agreement are fair, just and reasonable. Any such approval by the Commission of a biomass purchase power agreement is valid for the entire initial term of the agreement.~~

(ed) The REPA Satisfies The Requirements Of KRS 278.300

(i) The Role Of Renewable Generation.

15. ~~17.~~ AEP has included reasonably priced renewable generation within the supply side options it considers in planning for the future capacity and energy needs of its operating companies. In its 2009 Integrated Resource Plan, for example, Kentucky Power assumed that AEP would seek to acquire by the close of 2012 renewable resources equal to at least seven percent of AEP’s energy sales.

16. ~~18.~~ Driving these goals in part have been increasing governmental mandates, including the imposition in jurisdictions other than Kentucky of Renewable Portfolio Standards (“RPS”) for electric generation.

17. ~~19.~~ Even those states, such as Kentucky, that have yet to adopt a RPS are promoting the increased use of renewable fuels. For example, on November 20, 2008, Governor Steve Beshear announced his comprehensive energy plan, entitled, *Intelligent Energy Choices for Kentucky’s Future*. Among the seven strategies included in the plan was an increase in

Kentucky's renewable energy generation to 1000 MW by 2025.

<http://www.governor.ky.gov/NR/rdonlyres/32B6DCAF-57F5-49DC-B9F3-4E889746CBB0/0/20081120energyFactSheet.pdf>.

Strategy 2 under the Governor's Plan notes that Kentucky "has great potential for producing energy from woody biomass," such as will be used at the ecoPower facility.

18. ~~20.~~ Similarly, in the 2009 General Assembly, House Majority Leader, Representative Adkins, introduced HB 537. The bill would have established a Renewable Energy and Efficiency Standard for Kentucky. Among the requirements that would have been imposed by the standard was an increase in Kentucky's renewable generation to 1000 MW by 2025. <http://www.lrc.ky.gov/record/09RS/HB537/bill.doc> The bill was not enacted. HB 3 and HB 428, which were introduced in the 2010 General Assembly, likewise would have established renewable or clean energy standards. In particular, HB 3 would have required renewable energy to be generated within the Commonwealth. The bills were not enacted.

19. ~~21.~~ Most recently, the 2013 Kentucky General Assembly recognized the importance of Kentucky-based biomass energy facilities through enactment of Senate Bill 46, which prescribes certainty in the ratemaking treatment accorded purchase power agreements ("PPAs") for the purchase of electric power from such facilities. In addition, Section 2 of Senate Bill 46 prescribes that the bill was to become effective immediately in accordance with Section 55 of the Kentucky Constitution upon its approval by the Governor in light of the "vital importance for the Commonwealth to incent [biomass energy] businesses to advance the goal of energy independence and new jobs...." [Senate Bill 46 has been codified as KRS 278.271.](#)

- (ii) The Financial Obligations Assumed By Kentucky Power Under The REPA Are For A Lawful Object Within Kentucky Power's Corporate Purposes.

20. ~~22.~~—Kentucky Power is a corporation organized under the laws of the Commonwealth of Kentucky. It is regulated by the Commission and, pursuant to Kentucky's Certified Territory Statutes, KRS 278.016-278.018, possesses the exclusive right and obligation to provide retail electric service within its certified territory in parts of 20 counties in Kentucky.

21. ~~23.~~—The financial obligations assumed by Kentucky Power under the REPA are in connection with a long-term contract for the purchase of capacity and energy to meet Kentucky Power's obligation, as an electric utility providing service within its certified territory within the Commonwealth of Kentucky, to provide adequate, efficient and reasonable service to its Kentucky customers. KRS 278.030. As such, the REPA, and Kentucky Power's financial obligations under the REPA, are for a lawful object within the Company's corporate purpose.

- (iii) The Financial Obligations Assumed By Kentucky Power Under the REPA Are Necessary And Appropriate For, And Consistent With, The Provision Of Electric Service By Kentucky Power In Its Certified Territory.

22. ~~24.~~ The ecoPower facility will diversify Kentucky Power's fuel use and generation.

The ecoPower facility will be located in the Company's service territory and is expected to generate approximately 230 construction jobs over the two-year construction period. The Company is informed that the facility is expected to provide jobs for an estimated 30 full time employees and approximately 225 timber and trucking related jobs. In addition, the facility is likely to foster local economic development.

23. ~~25.~~ As a result, the financial obligations assumed by Kentucky Power under the REPA are necessary and appropriate for, and consistent with, Kentucky Power's provision of electric service.

- (iv) The Financial Obligations Assumed By Kentucky Power Under The REPA Will Not Impair Its Ability To Provide Adequate, Efficient and Reasonable Electric Service In The Commonwealth Of Kentucky.

24. ~~26.~~ Under the terms of the REPA, Kentucky Power may terminate the agreement if it is unable at any time during the term of the REPA to recover all of the jurisdictional costs associated with the REPA. Thus, the financial obligations associated with the REPA will be recovered through the Company's rates and will not impair Kentucky Power's ability to provide electric service.

- (v) The Financial Obligations Assumed By Kentucky Power Under The REPA Are Reasonably Necessary And Appropriate For The Provision Of Electric Service By The Company.

25. ~~27.~~ Given the implementation by 29 states and the District of Columbia of RPS, the implementation by eight additional states of renewable portfolio goals,<sup>35</sup> legislative efforts in the United States Congress and the Kentucky General Assembly to enact such standards, and the inclusion by Governor Beshear of renewable goals in his comprehensive energy plan, it is increasingly likely that within the 20-year term of the REPA Kentucky Power will be subject to RPS or other limitations on its use of coal-fired generation to meet its capacity and energy needs. It thus is reasonably necessary and appropriate for Kentucky Power to begin to acquire Kentucky-based renewable energy resources such as those available through the REPA.

26. ~~28.~~ Based upon these considerations, the financial obligations associated with the REPA are reasonably necessary and appropriate for the provision of electric service by Kentucky Power.

- (f) Regulatory Requirements – 807 KAR 5:001, Section 17.

27. ~~29.~~ A general description of Kentucky Power's property and its field of operation, together with the statement of its original cost and its cost to Kentucky Power, ~~is~~ was attached as EXHIBIT 1.1 to the Company's April 10, 2013 Application and incorporated by reference herein. [807 KAR 5:001, Section 17(1)(a).]

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<sup>35</sup> <http://www.eia.gov/todayinenergy/detail.cfm?id=4850> .

28. ~~30.~~ Kentucky Power will not issue any stock or bonds as a part of entering into the ecoPower REPA. Under existing Commission authority the REPA constitutes an evidence of indebtedness. [807 KAR 5:001, Section 17(1)(b).]

29. ~~31.~~ Kentucky Power is entering into the ecoPower REPA as a necessary and appropriate method of diversifying its generation base and meeting its customers' needs. The ecoPower REPA is described in more detail above. [807 KAR 5:001, Section 17(1)(c).]

30. ~~32.~~ Kentucky Power is not acquiring any property, but instead entering into the ecoPower REPA. The REPA provides that Kentucky Power will, after the effective date of the agreement, purchase all renewable energy from the ecoPower facility and receive all RECs associated with that energy. A copy of the ecoPower REPA ~~is was~~ filed with ~~this~~ the Company's April 10, 2013 Application as Exhibit JFG-1 (Confidential) and Exhibit JFG-1 (Public) to the testimony of Company Witness Godfrey, and incorporated by reference herein. [807 KAR 5:001, Section 17(1)(d).]

31. ~~33.~~ Kentucky Power is not proposing to discharge or refund obligations as part of this ~~application~~ Amended Application. [807 KAR 5:001, Section 17(1)(e).]

32. ~~34.~~ The required financial exhibits are described below in Paragraphs ~~37-43~~ 35-41. [807 KAR 5:001, Section 17(2)(a).]

33. ~~35.~~ There are no outstanding trust deeds or mortgages relating to Kentucky Power or its property. [807 KAR 5:001, Section 17(2)(b).]



34.    ~~36.~~ The information required by 807 KAR 5:001, Section 17(2)(c) is attached as Exhibit JFG-4 to the testimony of Company Witness Godfrey.

(g) Regulatory Requirements – 807 KAR 5:001, Section 12 (Financial Exhibit).<sup>46</sup>

35. ~~37.~~ Kentucky Power has the following stock authorized, issued and outstanding:

(a) Common Stock: 2,000,000,000 shares authorized and 1,009,000 shares outstanding. [807 KAR 5:001, Section 12(1), (2)]; and

(b) Kentucky Power has no authorized preferred stock. [807 KAR 5:001, Section 12(3).]

36. ~~38.~~ There are no mortgages encumbering Kentucky Power's property. [807 KAR 5:001, Section 12(4).]

37. ~~39.~~ The bonds identified in EXHIBIT 2 to ~~this~~ the Company's April 10, 2013 Application, and incorporated by reference herein, constitute the Company's authorized and issued bonds. [807 KAR 5:001, Section 12(5).]

38. ~~40.~~ The note identified in EXHIBIT 2 to ~~this~~ the Company's April 10, 2013 Application, and incorporated by reference herein, constitutes the Company's existing note. [807 KAR 5:001, Section 12(6).]

39. ~~41.~~ Kentucky Power has no other indebtedness outstanding. [807 KAR 5:001, Section 12(7).]

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<sup>46</sup> 807 KAR 5:001, Section 17(2)(a).

40. ~~42.~~ During the past five years Kentucky Power paid the dividends identified in EXHIBIT 2 to ~~this~~ the Company's April 10, 2013 Application, which is incorporated by reference herein. [807 KAR 5:001, Section 12(8).]

41. ~~43.~~ A detailed income statement and a detailed balance sheet for Kentucky Power for the twelve month period ending ~~February 28,~~ March 31, 2013 are attached as EXHIBIT 3 and EXHIBIT 4 respectively. [807 KAR 5:001, Section 12(9).]

Application for Declaratory Order

DECLARATORY ORDER

42. ~~44.~~ Paragraph 6.1(A) of the REPA provides that Kentucky Power may terminate the REPA if the Company has not received a “Commission Approval Order” by ~~October~~ November 15, 2013. The REPA further defines the term “Commission Approval Order” as a final, non-appealable order from this Commission that, *inter alia*, “declares that concurrent recovery of costs associated with this REPA through Kentucky retail rates via a monthly rider or a monthly surcharge to base rates is appropriate....”

43. ~~45.~~ The declaratory order provided for by paragraph 6.1(A) is required because credit rating agencies treat PPAs such as the REPA as fixed, debt-like financial obligations that represent substitutes for capital investments by the utility. As such, PPA obligations, in the form of capacity payments, may be incorporated in credit rating agencies’ assessment of the utility’s creditworthiness. This is done by imputing a portion of the net present value of the stream of capacity payments as a debt obligation of the utility for purposes of evaluating the utility’s credit statistics. Where, as under the ecoPower REPA, there is not a separate capacity charge, the rating agencies indicate they use an implied capacity payment in their evaluation.

44. ~~46.~~ The portion of the net present value of the capacity payments, whether stated or implied, that are imputed as a debt obligation is calculated by the credit rating agencies based on their assessment of the “risk factors” associated with the utility’s ability to recover the payments.

45. ~~47.~~ The Company understands that a regulatory mechanism that provides for concurrent and full recovery through a rider or surcharge of the payments made under the REPA, coupled with the protections afforded by Senate Bill 46, will limit the “risk factors” assigned the REPA by credit rating agencies, and hence the percentage of the net present value of Kentucky Power’s implied capacity payments under the REPA that will be imputed to the Company as debt by the agencies. As such, it is in the interest of Kentucky Power’s customers, ecoPower, and the Company itself to obtain the earliest possible declaration from this Commission that a rider or surcharge to base rates that permits the Company to recover concurrently its full payments under the REPA is appropriate.

46. ~~48.~~ In response to the methodology employed by credit rating agencies in evaluating PPAs, Kentucky Power included as part of the ecoPower REPA certain provisions designed to minimize to the extent possible the “risk factors” employed by credit rating agencies in evaluating the REPA. These include both the right under paragraph 6.1(A) to terminate the REPA if the Company does not receive the declaratory order sought in this ~~application~~ Amended Application, and the further right under paragraphs 6.1(B), 6.1(C), and 6.1(D), and the definition of “Cost Recovery Order,” to terminate the REPA, subject to limited cure provisions, if the Company is ever denied full concurrent recovery of its costs under the REPA by means of a rider or surcharge to base rates.

**APPROVAL OF BIOMASS ENERGY RIDER**  
**UNDER KRS 278.271**

47. ~~49.~~ As recognized by the Kentucky Supreme Court in *Kentucky Public Service Commission v. Commonwealth ex rel. Conway*, 324 S.W.3d 373 (Ky. 2010), the Commission is

empowered by its plenary ratemaking authority to establish a rider or surcharge to base rates so long as the resulting rates are fair, just and reasonable.

48. ~~The Company anticipates seeking approval of the rider or surcharge to base rates under Senate Bill 46 and all other applicable Commission authority as part of its next base rate case. Kentucky Power further anticipates that the rider or surcharge rates will not become effective until 2017 when the ecoPower facility first becomes operational.~~ 2013 Regular Session of the Kentucky General Assembly enacted Senate Bill 46. Senate Bill 46 was signed into law by Governor Beshear on March 5, 2013 and later codified at KRS 278.271. As provided in Section 2 of the act, Senate Bill 46 became effective upon its approval by the Governor.

49. KRS 278.271 empowers the Commission, upon application by a regulated utility, to “allow recovery of costs which are not recovered in the existing rates of a utility for the purchase of electric power from a biomass energy facility that has received a certificate from the Kentucky State Board on Electric Generation and Transmission Siting ...” upon the determination by the Commission that the full costs of the purchase power agreement over the full term of the agreement are fair, just and reasonable. Any such approval by the Commission of a biomass purchase power agreement is valid for the entire initial term of the agreement.

50. Kentucky Power seeks the Commission’s approval of a new Biomass Energy Rider (Tariff B.E.R.) pursuant to KRS 278.271 to recover its costs for the purchase of renewable energy under the REPA. Tariff B.E.R. is filed as EXHIBIT 5 to this Amended Application and further discussed in the Supplemental Testimony of Company Witness Wohnhas as Exhibit RKW-1S. The Biomass Energy Rider develops a Monthly Biomass Adjustment Factor (in \$/kWh) based on a

ratio of the price paid for purchases under the REPA during the month to the Company's total energy sales during the month, excluding intersystem sales. The Monthly Biomass Energy Factor is then applied to a customer's bill. If approved, Tariff B.E.R. would become effective the first month in which energy is delivered to the Company under the REPA. Charges would appear on customer bills approximately two months later.

51. The ecoPower Facility is consistent with and advances the policy established by the legislature in KRS 154.27-020(2) through the development of an innovative energy-related business that advances the public purposes of achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenues. It likewise is consistent with and furthers the policies underlying KRS 278.271.

52. The Biomass Energy Rider (Tariff B.E.R) will allow the recovery of costs, not recovered in the Company's existing rates, for the purchase of electric power from the ecoPower biomass energy facility, a facility that has received a certificate from the Kentucky State Board on Electric Generation and Transmission Siting in Case No. 2009-00530. The requirements of KRS 278.271 will be satisfied in full upon approval by the Commission in this proceeding of the REPA.

53. The full costs the REPA, a copy of which is attached as Exhibit JFG-1 (Public) and Exhibit JFG-1 (Confidential) to Company Witness Godfrey's testimony, over its full term are fair just and reasonable.

**Requested Date ~~For~~ for Final Order**

54. ~~51.~~ Kentucky Power requests that the Commission issue an order granting the requested relief no later than ~~September 9,~~October 11, 2013. The issuance of an order by ~~September 9,~~October 11, 2013 is a necessary predicate for there to be a final and non-appealable order issued on or before ~~October-~~November 15, 2013 as required by paragraph 6.1(A) of the REPA.

**Exhibits ~~And~~ and Testimony**

55. ~~52.~~ The exhibits and testimony listed in the Appendix to this Amended Application are attached to, or incorporated in, and made a part of this Amended Application.

**Communications**

56. ~~53.~~ The Applicant respectfully requests that communications in this matter be addressed to:

Mark R. Overstreet  
R. Benjamin Crittenden  
STITES & HARBISON PLLC  
421 West Main Street  
P.O. Box 634  
Frankfort, Kentucky 40602-0634  
[moverstreet@stites.com](mailto:moverstreet@stites.com)  
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Ranie K. Wohnhas  
Kentucky Power Company  
P.O. Box 5190  
Frankfort, Kentucky 40602-5190  
[rwohnhas@aep.com](mailto:rwohnhas@aep.com)

ON BEHALF OF KENTUCKY POWER COMPANY

**WHEREFORE**, Kentucky Power Company requests that the Commission issue on or before  
October 11, 2013 an Order pursuant to KRS ~~278.300~~278.300, KRS 278.271 and all other  
applicable provisions:

- (a) approving the terms and conditions of the REPA between Kentucky Power and ecoPower;
- (b) approving and authorizing Kentucky Power to enter into the REPA;
- (c) declaring that the concurrent recovery by means of a monthly rider or surcharge to Kentucky Power's rates of all costs associated with the REPA is appropriate;
- (d) approving the Biomass Energy Rider (Tariff B.E.R.); and
- (e) ~~(d)~~ granting all other required or requested relief or approvals.

Respectfully submitted,

---

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COUNSEL FOR:  
KENTUCKY POWER COMPANY

COMMONWEALTH OF KENTUCKY  
BEFORE THE  
PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

JUL 03 2013

PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY FOR )  
APPROVAL OF THE TERMS AND CONDITIONS OF THE )  
RENEWABLE ENERGY PURCHASE AGREEMENT FOR )  
BIOMASS ENERGY RESOURCES BETWEEN THE )  
COMPANY AND ECOPOWER GENERATION-HAZARD ) Case No. 2013-0144  
LLC; AUTHORIZATION TO ENTER INTO THE )  
AGREEMENT; GRANT OF CERTAIN DECLARATORY )  
RELIEF; AND GRANT OF ALL OTHER REQUIRED )  
APPROVALS AND RELIEF )

SUPPLEMENTAL TESTIMONY

OF

RANIE K. WOHNHAS

ON BEHALF OF KENTUCKY POWER COMPANY

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

**CASE NO. 2013-00144**

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

**I. INTRODUCTION**

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

2 A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory  
3 and Finance, Kentucky Power Company (“Kentucky Power” or “Company”). My  
4 business address is 101 A Enterprise Drive, Frankfort, Kentucky 40601.

5 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?**

6 A. Yes.

**II. PURPOSE OF TESTIMONY**

7 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN**  
8 **THIS PROCEEDING?**

9 A. The purpose of my testimony is to explain the reason for filing the amended  
10 application and to describe the mechanism the Company proposes to use to  
11 recover the costs associated with the Renewable Energy Purchase Agreement For  
12 Biomass Energy Resources (“REPA”) between Kentucky Power and ecoPower  
13 Generation-Hazard, LLC (“ecoPower”).

**III. REASON FOR AMENDED APPLICATION**

14 **Q. WHY IS KENTUCKY POWER AMENDING THE APPLICATION IN**  
15 **THIS PROCEEDING?**

16 A. At the request of ecoPower, Kentucky Power is amending the application to seek  
17 approval of the cost-recovery mechanism. To secure third party financing

1 required for construction of the biomass facility, ecoPower has informed the  
2 Company that the initial conditions precedent, including the approval of the  
3 REPA, the approval of the Mitchell transfer, and approval of the cost recovery  
4 tariff, must be satisfied.

5 **Q. DOES KENTUCKY POWER ALSO REQUIRE APPROVAL OF THE**  
6 **COST RECOVERY MECHANISM?**

7 A. Yes. Approval of the cost recovery mechanism is needed to satisfy section 6.1(B)  
8 of the REPA. As explained at pages 5-7 of my previous testimony, Kentucky  
9 Power also needs approval of a cost recovery mechanism that provides for  
10 concurrent recovery of the costs associated with the REPA to minimize the effect  
11 the REPA might have on its credit statistics. The potential effects of the REPA on  
12 the Company's credit statistics are described in my direct testimony from page 6,  
13 line 18 through page 7, line 8.

14 **Q. DIDN'T THE COMPANY ORIGINALLY PLAN TO SEEK APPROVAL**  
15 **OF THE COST-RECOVERY MECHANISM IN ITS BASE RATE CASE**  
16 **FILED ON JUNE 28, 2013?**

17 A. Yes. However, as part of Case 2012-00578 (where the Company is seeking  
18 approval of a transfer of an undivided 50% interest in the Mitchell Generating  
19 Station), the Company on May 28, 2013 entered into a Memorandum of  
20 Understanding with Kentucky Industrial Utility Customers, Inc. ("KIUC").  
21 Subsequently, on July 2, 2013 the Company and the same two intervenors  
22 executed a binding Stipulation and Settlement Agreement. Both the  
23 Memorandum of Understanding and the Stipulation and Settlement Agreement

1 include a stay-out provision that requires the Company to withdraw its June 28,  
2 2013 base rate case upon approval of the settlement. With the possibility that the  
3 base rate case could be withdrawn if the settlement is approved by the  
4 Commission, ecoPower requested that the Company seek approval of the cost-  
5 recovery mechanism as part of this case under the Commission's authority in  
6 KRS 278.272. As discussed above, this approval is necessary for ecoPower to  
7 secure third party financing.

#### IV. RECOVERY MECHANISM

8 **Q. HAS THE COMPANY DEVELOPED A SPECIFIC RECOVERY**  
9 **MECHANISM TO PERMIT CONCURRENT RECOVERY OF THE REPA**  
10 **COSTS?**

11 A. Yes. Please see Exhibit RKW-1S to this testimony for the Company's proposed  
12 Tariff B.E.R. (Biomass Energy Rider). Although the Company is seeking  
13 approval of the rider now, it will not begin recovering costs under Tariff B.E.R.  
14 until they are incurred.

15 **Q. PLEASE SUMMARIZE THE MECHANICS OF THE BIOMASS ENERGY**  
16 **RIDER.**

17 A. The Biomass Energy Rider provides for the concurrent recovery of the  
18 Company's cost's under the REPA by means of a Monthly Biomass Adjustment  
19 Factor (in \$/kWh) which is applied to a customer's monthly energy consumption.  
20 As with the Company's Fuel Adjustment Clause, there will be a two month lag  
21 between the purchase of energy from ecoPower and the application of the  
22 Biomass Adjustment Factor to a customer's bill.

1 The Company will calculate the Monthly Biomass Adjustment Factor as follows:

2 
$$\text{Biomass Adjustment Factor (A)} = (R * P_m) / S_m$$

3 *Rate (R)* shall be contract rate (\$/MWh) as defined in the REPA.

4 *Produced Energy (P<sub>m</sub>)* shall be the energy (MWh) produced and sold to the  
5 Company during the month.

6 *Sales (S<sub>m</sub>)* shall be the total energy (kWh) sold by the Company during the  
7 month, excluding intersystem sales.

8 **Q. WHAT WILL BE THE FIRST MONTH THAT THE BIOMASS**  
9 **ADJUSTMENT FACTOR WOULD BE APPLIED TO A CUSTOMER'S**  
10 **BILL?**

11 A. The Company will first apply the Biomass Adjustment Factor to a customer's bill  
12 two months after the first month in which it purchases energy from the biomass  
13 facility. For example, if the Company first purchases energy from the biomass  
14 facility in March 2017, the first Biomass Adjustment Factor would be applied to a  
15 customer's bill during the May 2017 billing cycle.

16 **Q. IS THIS BIOMASS ENERGY RIDER SPECIFIC TO ECOPOWER?**

17 A. Yes. The Company developed the Biomass Energy Rider specifically to recover  
18 costs associated with the REPA. The Company would need to revise this rider if  
19 it entered into any future biomass agreements.

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

22 A. Yes.



VERIFICATION

I, Ranie K. Wohnhas, Managing Director, Regulatory and Finance, after being duly sworn, state that the facts contained in this Amended Application are true and accurate to the best of my knowledge.



Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY )

) Case No. 2013-00144

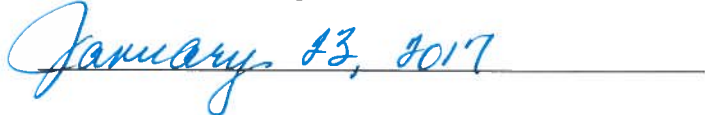
COUNTY OF FRANKLIN )

Subscribed and sworn to before me by Ranie K. Wohnhas on this the 2<sup>nd</sup> day of July, 2013.



Notary Public State at Large

My Commission Expires:



**EXHIBIT RKW-1S**

KENTUCKY POWER COMPANY

P.S.C. KY. NO. 10 ORIGINAL SHEET NO. 19-1  
CANCELING P.S.C. KY. NO. 10 SHEET NO. 19-1

**TARIFF B. E. R.  
(Biomass Energy Rider)**

**APPLICABLE.**

To Tariffs R.S., R.S.-L.M.-T.O.D., R.S.-T.O.D., Experimental R.S.-T.O.D.2, S.G.S., Experimental S.G.S.-T.O.D., M.G.S., M.G.S.-T.O.D., L.G.S., L.G.S.-T.O.D., Q.P., C.I.P.-T.O.D., C.S.- I.R.P., M.W., O.L. and S.L.

**RATE.**

1. When energy is generated and sold to the Company from the ecoPower biomass facility, an additional charge equal to the product of the kWh of sales and a biomass adjustment factor (A) shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatt-hour, is defined as set forth below.

$$\text{Biomass Adjustment Factor (A)} = (R * P_m) / S_m$$

In the above formulas "R" is the rate for the current calendar year approved by this commission in the REPA between ecoPower and Kentucky Power Company, "P" is the amount of kwh purchased by Kentucky Power Company in the current (m) period, and "S" is the kWh sales in the current (m) period, all defined below.

2. Rate (R) shall be the dollar per MWh as defined in the REPA between ecoPower and Kentucky Power Company, including any applicable escalation factor as defined in the REPA.
3. Produced energy (P) shall be the MWh produced and sold to Kentucky Power Company.
4. Sales (S) shall be all kWh sold, excluding intersystem sales. Utility used energy shall not be excluded in the determination of sales (S).
5. The monthly bio mass energy rider shall be filed with the Commission ten (10) days before it is scheduled to go into effect, along with all the necessary supporting data to justify the amount of the adjustment, which shall include data, and information as may be required by the Commission.
6. Copies of all documents required to be filed with the Commission shall be open and made available for public inspection at the office of the Public Service Commission pursuant to the provisions of KRS61.870 to 61.884

DATE OF ISSUE   XXXXXXX  

DATE EFFECTIVE   SERVICE RENDERED ON AND AFTER XXXXXX  

ISSUED BY   Lila P. Munsey  

TITLE:   MANAGER OF REGULATORY SERVICES  

BY AUTHORITY OF ORDER BY THE PUBLIC SERVICE COMMISSION

  IN CASE NO. XXX-XXXX DATED