BOEHM, KURTZ & LOWRY
ATTORNEYS AT LAW
36 EAST SEVENTH STREET
SUITE 1510
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255

TELECOPIER (513) 421-2764

RECEIVED
AUG 01 2013
PUBLIC SERVICE
COMMISSION

Via Overnight Mail

July 31, 2013

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2013-00144

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies each of the PUBLIC VERSION of the KIUC'S RESPONSES TO COMMISSION STAFF's FIRST REQUEST FOR INFORMATION and KENTUCKY POWER's FIRST SET OF DATA REQUESTS for filing in the above-referenced docket. I also enclose a copy of the CONFIDENTIAL pages to be filed under seal.

The information filed under seal is information that Kentucky Power sought confidential treatment through a Petition for Confidential Treatment dated April 11, 2013. KIUC redacted this information in order to protect Kentucky Power's interests in keeping this information confidential.

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place this document of file.

Very Truly Yours,

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
cc: Certificate of Service
Quang Nyugen, Esq.
Jeff Cline

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and regular U.S. Mail to all parties on this 31st day of July, 2013.

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
Jody Kyler Cohn, Esq.

KENNETH J GISH, JR.
STITES & HARBISON
250 WEST MAIN STREET, SUITE 2300
LEXINGTON, KENTUCKY 40507

HONORABLE MARK R OVERSTREET
ATTORNEY AT LAW
STITES & HARBISON
421 WEST MAIN STREET
P. O. BOX 634
FRANKFORT, KENTUCKY 40602-0634

RANIE WOHNHAS
MANAGING DIRECTOR
KENTUCKY POWER COMPANY
101 A ENTERPRISE DRIVE
P. O. BOX 5190
FRANKFORT, KY 40602

JENNIFER B HANS
DENNIS G. HOWARD, II
LAWRENCE W. COOK
ASSISTANT ATTORNEY GENERAL'S OFFICE
1024 CAPITAL CENTER DRIVE, STE 200
FRANKFORT, KENTUCKY 40601-8204

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
AUG 01 2013
PUBLIC SERVICE COMMISSION

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 LLC; AUTHORIZATION TO ENTER INTO THE AGREEMENT; GRANT OF CERTAIN DECLARATORY RELIEF; AND APPROCALS AND RELIEF	) CASE NO. 2013-00144

KIUC'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

1. Refer to page 6 of the Direct Testimony of Alan S. Taylor ("Taylor Testimony"), lines 2-3, where Mr. Taylor refers to having recently "seen 20-year REPA proposals offered at contract prices that are less than a third of the ecoPower REPA's price." Provide a list identifying the parties that offered such prices and, if the offer ultimately resulted in a contract, the counter-party/buyer under the contract.

RESPONSE:

My independent evaluation engagements are conducted under confidentiality provisions that prevent me from disclosing details of the proposals that are received. Broadly speaking, though, I have seen contract prices that are less than a third of the ecoPower REPA's price for recent offers (i.e., ones submitted and reviewed in 2013) associated with proposed renewable energy projects in Iowa, Minnesota, North Dakota, South Dakota, and Wisconsin.

SPONSORING WITNESS: Alan Taylor.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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 LLC; AUTHORIZATION TO ENTER INTO THE AGREEMENT; GRANT OF CERTAIN DECLARATORY RELIEF; AND APPROCALS AND RELIEF	)	CASE NO. 2013-00144

KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

2. Refer to page 11 of the Taylor Testimony , specifically the last two sentences in the paragraph immediately preceding the question near the bottom of the page, which concerns construction having already started on the "Chipper Building" that is part of the ecoPower project. According to the first page of his testimony, Mr. Taylor's "area of specialization is in the economic and financial analysis of renewable and conventional power supply options..." Explain why, in the latter of the two sentences referenced, Mr. Taylor states that ecoPower ***may*** (emphasis added) already be in a position to qualify for federal renewable production tax credits rather than definitely stating the ecoPower will or will not qualify for the credits.

RESPONSE:

The Section 45 production tax credit statutes require that qualifying renewable energy projects be "under construction" by December 31, 2013. I have seen news articles in recent months that reported that the Internal Revenue Service was attempting to establish criteria (e.g., some percent of project expenditures expended by the end of 2013) to judge whether or not a project is deemed

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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 LLC; AUTHORIZATION TO ENTER INTO THE AGREEMENT; GRANT OF CERTAIN DECLARATORY RELIEF; AND APPROCALS AND RELIEF	)	CASE NO. 2013-00144

KIUC'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

to be "under construction." As I do not know how much the Chipper Building 2013 construction activities and expenditures may entail and how much this amounts to as a percentage of the overall project's costs, I chose to use the word "may" in my testimony. If ecoPower's 2013 activities simply involve hammering some surveying stakes in the ground for the Chipper Building, that may not qualify the overall project for Section 45 PTCs.

SPONSORING WITNESS: Alan Taylor.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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 LLC; AUTHORIZATION TO ENTER INTO THE AGREEMENT; GRANT OF CERTAIN DECLARATORY RELIEF; AND APPROCALS AND RELIEF	)	CASE NO. 2013-00144

KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

3. Refer to page 15 of the Taylor Testimony wherein Mr. Taylor states that he performed two analyses using Kentucky Power Company's ("Kentucky Power") response to Item 10 of KIUC's second information request. Provide the supporting workpapers for the two analyses.

RESPONSE:

Please see the CONFIDENTIAL KIUC Response to KPSC Data Request 3 - REC Cost Spreadsheet - FILED UNDER SEAL.

As noted in my testimony, I relied on the ecoPower REPA's contract price and on base case and high scenario market prices for energy and capacity that were provided by Kentucky Power in response to KIUC Data Request 1-10 (where KIUC requested such forecasts of "prices at which Kentucky Power may be able to buy or sell energy in the future"). The forecast that was provided by Kentucky Power included a 'BASE' Fleet Transition CSAPR scenario and several alternate scenarios, all extending from 2012 through 2030. For the base case analysis, I used the 'BASE' Fleet Transition CSAPR scenario; for the high scenario analysis, I used the FT-CSAPR

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 LLC; AUTHORIZATION TO ENTER INTO THE AGREEMENT; GRANT OF CERTAIN DECLARATORY RELIEF; AND APPROCALS AND RELIEF	) CASE NO. 2013-00144

**KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION**

HIGHER Band scenario – both from Kentucky Power's response to KIUC Data Request 1-10. For years beyond 2030, I extended the price forecasts by the escalation rate that was exhibited in the last five years (i.e., 2025-2030) of Kentucky Power's forecasts; those later-year trends showed fairly smooth underlying assumptions in Kentucky Power's forecast. I used Kentucky Power's assumption of 88% expected capacity factor for the ecoPower facility to convert the utility's capacity price forecast from $/MW-day into $/MWh. In addition, for blending on-peak and off-peak prices into annual averages, I assumed percentages that were based on 6 days/week and 16 hours/day on-peak designation (which is fairly standard in most wholesale electricity markets). I did not attempt to factor in holidays or 5 days/week on-peak assumptions as this only would have increased the REC cost calculation, and I wanted to be conservative in my assumptions.

SPONSORING WITNESS: Alan Taylor.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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 LLC; AUTHORIZATION TO ENTER INTO THE AGREEMENT; GRANT OF CERTAIN DECLARATORY RELIEF; AND APPROCALS AND RELIEF	)	CASE NO. 2013-00144

KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

4. Refer to page 6 of the Direct Testimony of Lane Kollen ("Kollen Testimony"). Beginning at line 10, Mr. Kollen states that "the Company actually will benefit from the REPA because it will retain 40% of the margins from additional off-system sales ("OSS") through the operation of the System Sales Clause."

a. Does Mr. Kollen make this statement because he believes the Renewable Energy Power Agreement ("REPA") power sold to Kentucky Power will result in additional off-system sales for Kentucky Power? If not, explain.

b. Does Mr. Kollen agree that if the REPA is approved that the REPA purchases would be allocated entirely to Kentucky Power's native load? If not, explain.

RESPONSE:

a. Yes. The Company acknowledged that the energy from the REPA would be considered as take or pay (or must-run) in response to KIUC 1-23 and that it would result in more energy available for sale in response to KIUC 1-21.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR APPROVAL	)	
OF THE TERMS AND CONDITIONS	)	
OF THE RENEWABLE ENERGY	)	
PURCHASE AGREEMENT FOR	)	
BIOMASS ENERGY RESOURCES	)	CASE NO. 2013-00144
BETWEEN THE COMPANY AND	)	
ECOPOWER GENERATION-HAZARD	)	
LLC; AUTHORIZATION TO ENTER	)	
INTO THE AGREEMENT; GRANT OF	)	
CERTAIN DECLARATORY RELIEF;	)	
AND APPROCALS AND RELIEF	)	

KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

b. Yes. This means that the fuel costs recoverable through the FAC will decrease; however, under the Company's proposal, the all-in costs of the REPA would be recovered through a new rider. The net effect will be an increase in recoverable costs, as shown on Mr. Wohnhas' Exhibit RKW-1.

SPONSORING WITNESS: Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR APPROVAL	)	
OF THE TERMS AND CONDITIONS	)	
OF THE RENEWABLE ENERGY	)	
PURCHASE AGREEMENT FOR	)	
BIOMASS ENERGY RESOURCES	)	CASE NO. 2013-00144
BETWEEN THE COMPANY AND	)	
ECOPOWER GENERATION-HAZARD	)	
LLC; AUTHORIZATION TO ENTER	)	
INTO THE AGREEMENT; GRANT OF	)	
CERTAIN DECLARATORY RELIEF;	)	
AND APPROCALS AND RELIEF	)	

KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

5. Refer to pages 10-11 of the Kollen Testimony. Starting at the bottom of page 10, Mr. Kollen states that Kentucky Power estimates that the cost of the REPA will be offset by $12.78 million in avoided costs, "presumably through the Fuel Adjustment Clause…" Is Mr. Kollen aware that the avoided fuel costs were calculated by multiplying 450,000 MWh by $28.40 per MWH and that the $28.40 per MWh is based on the $.0284 per kWh of fuel costs that are included in Kentucky Power's base rates?

RESPONSE:

Yes. As Mr. Kollen noted in the referenced testimony, the actual avoided fuel costs will be reflected through a reduction in the FAC charges, not base rates, all else equal. Mr. Kollen recognizes that Mr. Wohnhas chose to calculate the estimated effect of this reduction by using the fuel costs included in base rates rather than the combination of base rates and FAC, but does not know why Mr. Wohnhas used this methodology.

SPONSORING WITNESS: Lane Kollen.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

APPLICATION OF KENTUCKY	)	
POWER COMPANY FOR APPROVAL	)	
OF THE TERMS AND CONDITIONS	)	
OF THE RENEWABLE ENERGY	)	
PURCHASE AGREEMENT FOR	)	
BIOMASS ENERGY RESOURCES	)	CASE NO. 2013-00144
BETWEEN THE COMPANY AND	)	
ECOPOWER GENERATION-HAZARD	)	
LLC; AUTHORIZATION TO ENTER	)	
INTO THE AGREEMENT; GRANT OF	)	
CERTAIN DECLARATORY RELIEF;	)	
AND APPROCALS AND RELIEF	)	

KIUC'S RESPONSE TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

6. Refer to the Direct Testimony of Paul Coomes, page 5 of his exhibit. Explain how the $10,886,229 cost of wood fuel and $10,705,486 cost of coal fuel were calculated.

RESPONSE:

On page 5 of the exhibit I provide a table showing the components behind the calculations mentioned. More explicitly, my assumed fuel costs at the source are obtained by:

Wood: $10,886,229 = [(58.5 megawatts capacity) X (7,709 hours of generation per year) X (12,778 BTUs per kilowatt hour) / (10 million BTUs per ton of wood delivered)] X ($19 per ton cost of wood at sawmill)

Coal: $10,705,486 = [(58.5 megawatts capacity) X (7,709 hours of generation per year) X (10,200 BTUs per kilowatt hour) / (25 million BTUs per ton of coal delivered)] X ($58 per ton cost of coal at mine)

SPONSORING WITNESS: Paul Coomes.