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COMMISSION

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August 9, 2013

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 the Rebuttal Testimony of Gregory G. Pauley in this matter.

A copy of Mr. Pauley's testimony is being served by overnight delivery 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

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AUG 09 2013

PUBLIC SERVICE
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**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)

**REBUTTAL TESTIMONY OF
GREGORY G. PAULEY
ON BEHALF OF KENTUCKY POWER COMPANY**

August 9, 2013

**REBUTTAL TESTIMONY OF
GREGORY G. PAULEY, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2013-00144

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**REBUTTAL TESTIMONY OF
GREGORY G. PAULEY, 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 Gregory G. Pauley. My position is President and Chief Operating
3 Officer (“COO”), Kentucky Power Company (“Kentucky Power” or the
4 “Company.”) My business address is 101 A Enterprise Drive, Frankfort,
5 Kentucky 40602.

6 **Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS CASE?**

7 **A.** Yes.

II. PURPOSE OF TESTIMONY

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

10 **A.** The purpose of my rebuttal testimony is to respond to the testimonies of KIUC
11 witnesses Kollen, Taylor, and Coomes. In particular, I will discuss the effect the
12 termination of the Pool Agreement played in the Company’s evaluation of the
13 REPA. I will also discuss the unique opportunity presented by the REPA that
14 made an RFP unnecessary. Finally, I will describe the fallacies inherent in the
15 comparative economic analysis performed by KIUC witness Coomes.

III. COMPARISON TO CASE NO. 2009-00545

1 **Q. KIUC WITNESS KOLLEN ARGUES THAT THE ECOPOWER REPA**
2 **PRESENTS THE SAME SHORTCOMINGS AS THE REPA REJECTED**
3 **BY THE COMMISSION IN CASE NO. 2009-00545. DO YOU AGREE?**

4 A. No. The circumstances surrounding the ecoPower REPA are fundamentally
5 different than those surrounding the wind power REPA rejected by the
6 Commission in Case No. 2009-00545.

7 **Q. CAN YOU PLEASE ELABORATE ON THOSE DIFFERENCES?**

8 A. Certainly. As I discussed in my direct testimony, the January 1, 2014 termination
9 of the Pool Agreement eliminates Kentucky Power's ready access to low-cost
10 energy and capacity from other Pool members. Without the Pool, Kentucky
11 Power will be required to make up whatever capacity and energy shortfalls it
12 experiences as a stand-alone company within PJM. The ecoPower REPA gives
13 the Company a measure of certainty, when compared to purchasing power from
14 the market, in meeting its future energy needs and peak capacity obligations.

15 **Q. ARE THERE ANY OTHER DIFFERENCES?**

16 A. Yes. Importantly, and unlike the wind energy project at issue in Case No. 2009-
17 00545, the ecoPower biomass energy facility will be located in Kentucky Power's
18 service territory. This key difference was critical in Kentucky Power's decision
19 to enter into the REPA. The economic development benefits of the project, in the
20 form of construction jobs, operating jobs, timber and trucking industry jobs, and
21 increased local tax revenues will be located in Kentucky. The potential local
22 economic development opportunities afforded by the ecoPower facility

1 distinguish the ecoPower REPA from the wind energy REPA in Case No. 2009-
2 00545.

IV. THERE WAS NO NEED FOR AN RFP

3 **Q. KIUC WITNESS TAYLOR TESTIFIED THAT KENTUCKY POWER**
4 **SHOULD HAVE CONDUCTED AN RFP FOR RENEWABLE**
5 **RESOURCES PRIOR TO ENTERING INTO THE REPA. DO YOU**
6 **AGREE?**

7 A. No. The ecoPower REPA presented a unique opportunity for Kentucky Power to
8 meet its capacity and energy obligations while, at the same time, diversifying its
9 fuel portfolio and supporting a potential economic development engine in its
10 service territory. The terms of the REPA are the result of extensive negotiations
11 between Kentucky Power and ecoPower and represent a reasonable deal for
12 renewable energy based in Kentucky. As I described in my direct testimony,
13 renewable energy is more expensive than traditional fossil fuel generation;
14 however, the opportunity to further the renewable energy goals in the Governor's
15 Energy Plan while providing economic development opportunities for our service
16 territory led us to enter into the REPA. Because the ecoPower REPA provided
17 this unique opportunity, there was no need to conduct an RFP for similar
18 resources.

V. KIUC'S ECONOMIC IMPACT ANALYSIS IS BASED ON FLAWED
ASSUMPTIONS

19 **Q. HAVE YOU HAD THE OPPORTUNITY TO REVIEW KIUC WITNESS**
20 **COOMES' TESTIMONY REGARDING THE ECONOMIC**
21 **DEVELOPMENT POTENTIAL OF THE ECOPOWER FACILITY?**

22 A. I have.

1 **Q. DO YOU HAVE AN OPINION ON THE ANALYSIS THAT DR. COOMES**
2 **PERFORMED?**

3 A. Yes. Dr. Coomes' jobs and labor income impacts analysis compares the jobs and
4 income expected to be created by the ecoPower biomass facility against the jobs
5 and income that would be associated with obtaining the same amount of capacity
6 and energy from a coal-fired generation. This comparison is flawed.

7 **Q. WHY IS DR. COOMES' COMPARISON FLAWED?**

8 A. Dr. Coomes' analysis of jobs and labor impacts assumes that the alternative to
9 obtaining power from the ecoPower biomass facility is to obtain the same amount
10 of power from a coal-fired generation facility in the Company's service territory.
11 In fact, in response to Kentucky Power Data Request 1-8, Dr. Coomes identified
12 the Big Sandy Plant as the place where the replacement coal-fired generation
13 would occur. Due to the requirements of the mercury and air toxics standard
14 (MATS), Kentucky Power will stop burning coal at the Big Sandy Plant no later
15 than May 31, 2015, over a year before the anticipated ecoPower commercial
16 operation date. There is no coal-fired alternative to the ecoPower facility.
17 The proper alternative to which Dr. Coomes should have compared the jobs and
18 labor impacts of the ecoPower facility is Kentucky Power's purchase of the
19 equivalent amount of power from the PJM Market. Unlike with the ecoPower
20 facility, purchasing power from the PJM market will produce no jobs in Kentucky
21 Power's service territory. Accordingly, when compared to the realistic PJM
22 market alternative and using Dr. Coomes' numbers, the ecoPower facility will

1 produce an estimated annual increase in regional earnings of \$6.40 million and
2 estimated tax benefits of \$476,000.

3 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 **A.** Yes.