STITES & HARBISON PLLC
ATTORNEYS

421 West Main Street
Frankfort, KY 40601
[502] 223-3477
[502] 223-4124 Fax

November 20, 2014

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

HAND DELIVERED

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

RECEIVED
NOV 20 2014
PUBLIC SERVICE COMMISSION

RE: Case No. 2014-00336

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Power Company's responses to Staff's November 6, 2014 data requests in the above proceeding.

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

Very truly yours,

Mark R. Overstreet

MRO

RECEIVED
NOV 20 2014
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) APPROVAL OF AN ECONOMIC DEVELOPMENT RIDER; (2) FOR ANY REQUIRED DEVIATION FROM THE COMMISSION'S ORDER IN ADMINISTRATIVE CASE NO. 327; AND (3) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2014-00336

KENTUCKY POWER COMPANY RESPONSE TO COMMISSION STAFF'S INITIAL SET OF DATA REQUESTS

November 20, 2014

VERIFICATION

The undersigned, John A. Rogness III, being duly sworn, deposes and says he is the Director Regulatory Services for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his/her information, knowledge and belief.

John A. Rogness III

COMMONWEALTH OF KENTUCKY)
) Case No. 2014-00336
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by John A. Rogness III, this the 20th day of November 2014.

Judy K Rosquist 481393
Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Refer to the last bullet point beginning at the bottom of page 7 of the Application, and to the table just above titled SBDD—Percentage Demand Charge Reduction. Provide an example, with reference to the table, showing what is meant by the explanation that the demand charge will be waived "beginning at 36 months for a 10-year contract and concluding at 12 months for a six-year contract."

RESPONSE

The table at the bottom of page 7 of the Application and the final bullet on that same page address two different provisions of Tariff E.D.R.

The table provides in graphical form the applicable Supplemental Billing Demand Discount (SBDD) for each year of the discount period. The amount of the discount varies based on the number of new jobs created and maintained over the contract discount period (which is equal to one-half of the contract period.) For example, an existing customer who increases employment by 50 or more employees, or a new customer who employs 50 or more employees, and enters into a ten year contract will receive an additional 5% discount on its billing demand in year one of the contract. The same existing customer who increases employment by 25 employees, or new customer who employs 25 employees, and enters into the same 10-year contract will receive a SBDD of 2.5% in the first year of the contract. In both cases the SBDD decreases in 0.5% decrements each subsequent year, and is reduced to 0% for years 6-10 of contract.

The amount of the SBDD also varies based upon the length of the contract. For example, an existing customer who increases employment by 50 or more employees and enters into a ten year contract will, as described above, receive a 5% SBDD in the first year of the contract. The SBDD will decrease in 0.5% decrements each year, and will be reduced to 0% for years 6-10 of contract. The same existing employer who adds 50 customers but who enters into a six year contract will receive a 4% SBDD in the first year of the six year agreement. The SBDD will decrease in 0.5% decrements each subsequent year until, beginning year four and continuing to the end of the contract, it is reduced to 0%.

The SBDD is in addition to the Incremental Billing Demand Discount (IBDD) which requires only the addition of at least 500 kW of maximum monthly billing demand. The amount of the IBDD is premised upon the length of the contract. The IBDD is provided without regard to the number of new jobs created. The IBDD decreases each year in 0.5% decrements. The IBDD is zeroed out during the final half of the contract.

The "bullet" refers to the first two sentences of paragraph 8 of the terms and conditions (Original Sheet 37-3; page 3 of 5 of JAR Exhibit-1) of Tariff E.D.R. The provision addresses the situation where, as a result of the application of the SBDD and IBDD, the amount payable as the monthly demand charge is less than the minimum demand charge otherwise payable under the applicable general service tariff. The waiver of the minimum demand charge is for a limited period – 36 months for a ten year contract; 24 months for an eight year contract; and 12 months for a six year contract.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 10, paragraph 19, of the Application which discusses the verification burden of providing discounts related to the Supplemental Billing Demand Discount ("SBDD") on a job-by-job basis. Explain how Kentucky Power plans to verify the number of jobs added; whether it expects to verify the number of jobs added periodically; and what action it will take, if any, if it discovers there has been a significant gain or loss in jobs over the course of the discount period that would put the customer in a different discount category

RESPONSE

The Company will monitor the number of jobs created in several ways. Initially, the customer will provide the expected number of new jobs to be created with the new or expanded facility. The estimate will be reviewed by the Company's Customer Service Engineers, who work directly with larger customers, to gauge the reasonableness of the projected number of new jobs to be created as a result of the new production / business activity. Also, the Company's Customer Service Engineers will examine the nature of the new business activity and the attendant power requirements as a further check on the number of new jobs. Finally, the Company will ask the customer to provide voluntary annual reports on job counts. If the Company determines the customer has over or underestimated the number of new jobs being created and maintained, the Company may discontinue the SBDD discount, move the customer into a lower tier of the SBDD discount, or if the customer qualifies, move the customer into the higher SBDD discount.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the proposed Tariff E.D.R., page 1, Availability of Service section. Explain why customers or potential customers served pursuant to Tariff M.G.S. Medium General Service Sheet Nos. 8-1 through 8-5 are not candidates for the proposed tariff.

RESPONSE

Customers being served under the Tariff M.G.S. do not qualify for the E.D.R. because they do not have the required demand level. To receive service under Tariff E.D.R., the customer must have at least a minimum demand level of 500 KW of new load to be considered for the E.D.R. The upper limit demand level for the M.G.S. tariff by contrast is 100 KW.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the proposed Tariff E.D.R., page 2, subsection (7). State under what conditions a customer served pursuant to the proposed tariff would not be required to make a contribution-in-aid of construction for the installed cost of facilities, and identify the specific existing tariff provisions in Sheet 2-5, Section 9, that will be superseded by the proposed subsection (7).

RESPONSE

Subsection 7 of the terms and conditions of Tariff E.D.R. does not alter a customer's obligation to pay, pursuant to Section (9) (Tariff Sheets 2-5 and 2-6), of the Company's general Terms and Conditions of service, a contribution in aid of construction. It does alter, in conformity with Finding 9 of the Commission's Order in Administrative Case 327, the timing of the payment . Kentucky Power's general terms and conditions of service (Tariff Sheet 2-6) requires that any contribution in aid of construction must be paid "before the facilities are installed." Finding 9, by contrast, provides that "[a]ll EDR contracts shall include a provision providing for the recovery of EDR customer-specific fixed costs over the life of the contract." Section 7 of the terms and conditions section of Tariff E.D.R. complies with Finding 9 by requiring that 80% of the contribution in aid of construction must be paid over the discount period of the contract (*e.g.*, the first five years of a ten year contract), with the remaining 20% paid over the second half of the contract.

Because Tariff E.D.R. does not modify the customer's obligation to make contributions in aid in construction, customers taking service under Tariff E.D.R. will be required to make a contribution in aid of construction only in those instances in which a similarly situated customer not taking service under Tariff E.D.R. would be required to make a contribution. Conversely, a customer taking service under Tariff E.D.R. will be exempt from making contributions in aid construction in the same instances where a non-E.D.R. customer would be exempt. These typically would include circumstances where the required facilities exist (*e.g.* the addition of a production line in an existing facility or expansion into a formerly occupied facility), or where the customers meet the "revenue test" included in Section 9 of the Company's general Terms and Conditions of service.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to proposed Tariff E.D.R., pages 3-4, subsection (8), and the section titled Determination of Incremental Billing Demand Discount. Clarify whether the language in subsection (8) is correct with reference to the statement that the minimum demand charge provision "is waived for the first 36 months of a 10 year contract. . . ." If the language of subsection (8) is as intended by Kentucky Power, explain why the discount periods are different from those in the Determination of Incremental Billing Demand Discount section. If a correction is needed, provide revised proposed tariff sheets.

RESPONSE

The language is correct and no modification is required.

The Company recognizes that the three year waiver of the minimum demand charge does not align perfectly with the discount periods associated with the Incremental Billing Demand Discount. There are two reasons for limiting the waiver of the minimum demand charge for up to three years only and not making it coterminous with the IBDD periods. In most instances, after the first three years of a 10 year contract, the IBDD (20% in year 4 and 10% in year 5) will result in a demand charge that is greater than the minimum demand charge. Thus, there is no need to waive the minimum demand charge for more than three years. Second, limiting the waiver to a maximum of three years strikes an appropriate balance between providing customers with all (or in some limited cases most) of the incentive against the Company's need to recover costs.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to the Customer Notice, Exhibit 3, page 3. Confirm that the $9,211,125 Applicable Discount Year 1 for CIP — TOD, (IBDD+SBDD) is incorrect and provide the correct number.

RESPONSE

The amount is incorrect. The correct amount is $92,111.25.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 18 of the Direct Testimony of John A. Rogness, III ("Rogness Testimony"), lines 9 through 11. Provide additional explanation, including sample calculations, showing the effect of not including the minimum billing demand charge in periods when the reduction is 30 percent or greater and clarify why this is necessary.

RESPONSE

Please see the attached CD for sample bill calculations for L.G.S., Q.P. and C.I.P.-T.O.D. customers taking service at different voltage levels. The L.G.S. service at transmission voltage provides an example of the E.D.R. discount resulting in a charge less than the minimum billing demand. The left hand side of the spreadsheet represents what the customer would be billed before the E.D.R. tariff discount is applied. The right hand side of the spreadsheet represents the calculated bill after the E.D.R. discount is applied. The customer would receive a 50 percent discount in its monthly demand charge in year 1. The E.D.R. demand discount results in a demand charge that is less than the minimum billing demand charge.

The economic development rates under Tariff E.D.R. are intended to provide an incentive for businesses to invest in the Company's service territory through new or expanded energy consuming facilities. The incentive is provided through reduced demand charges for limited periods. The minimum billing demand can reduce the incentive by limiting the demand charge discount. Therefore, the Company is waiving the minimum billing demand charge temporarily in order to preserve the incentive inherent in the E.D.R. tariff.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 25 of the Rogness Testimony. Lines 16-19 state that reduction of a customer's discounts to cover the cost of purchased capacity will be capped so that the non-discounted tariff demand charge will be the customer's maximum demand charge. If there are purchased capacity costs not covered by the customer's discount reductions, state how the remaining cost will be recovered.

RESPONSE

In a situation where the Company is required to purchase capacity in order to satisfy its PJM UCAP obligation, the Company will not extend the E.D.R. discounts to capacity purchases made on the E.D.R. customer's behalf. In such cases, the E.D.R. customer would be responsible for the purchase cost (market price) of capacity purchased on its behalf. See Application Exhibit 2 Page 1 of 2 Terms and Conditions (1). The purpose of capping the discount reduction to the tariffed rate charge is to avoid penalizing the E.D.R. customers by forcing them to pay for capacity over and beyond their specific share of the Company's total capacity needs. In a capacity deficit situation, once the E.D.R. discount has been eliminated and the E.D.R. customer is paying the tariffed rate and being billed the tariffed demand charge, the E.D.R. customer is identically situated to all other customers. If the Company requires additional capacity to fulfill its PJM UCAP obligation beyond what is needed to serve E.D.R. customers, then any additional capacity charges will be spread across the Company's customer base.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Provide the special contract language mentioned on line 11, page 25, of the Rogness Testimony, which is intended to address the cost of capacity purchases on behalf of a customer.

RESPONSE

The proposed contract will state that the "Company agrees to furnish, and Customer agrees to take, E.D.R. service pursuant to the terms and conditions of the Tariff E.D.R., as currently approved by the PSC or as may be modified in the future and approved by the PSC." See Exhibit 2, Page 1 of 5 in the Application. The Company's proposed Tariff E.D.R. Terms and Conditions (1) address the issue of the customer paying the cost of additional capacity purchased on its behalf.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to pages 31-32 of the Rogness Testimony, Finding 9. Confirm that Kentucky Power proposes to recover a minimum of 80 percent of the customer-specific cost according to the terms of its proposed Tariff E.D.R., page 2, subsection (7). State how Kentucky Power proposes to recover any remaining customer-specific fixed cost.

RESPONSE

The Company confirms it proposes to recover 80 percent of the customer specific cost according to the terms and conditions of its proposed Tariff E.D.R. page 2 subsection (7). Eighty percent of any customer specific costs (i.e., contribution in aid of construction) will be recovered during the period for which the customer receives a demand discount. The remaining 20 percent will be recovered over the remaining term of the contract. Thus, the contribution in aid of construction will be recovered in full over the period of the contract.

As an example, for a 10 year contract, 80 percent of CAIC will be recovered during the first 5 years of the contract (the discount period) and the remaining 20 percent will be recovered over the last 5 years of the contract.

Also, see the response to KPSC 1-4.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Refer to page 32 of the Rogness Testimony, Finding 12. Confirm that there is no minimum base level proposed for new industrial customers, and that the entire load of a new customer meeting the eligibility requirements will receive the proposed discount. If this is the case, state whether Kentucky Power believes it is reasonable for the Commission to waive this requirement of Finding 12 along with the supporting facts Kentucky Power used in reaching its conclusion.

RESPONSE

The Company cannot confirm the statement. The Company confirms that there is a minimum base level required for new or existing customers to qualify for the E.D.R. discounts. New and existing customers are required to install a minimum of 500 KW of new or incremental load in order to qualify for the E.D.R. discounts. For an existing customer, the Company intends to apply the discounts to the additional new load only and not to the customer's existing load. For a new customer, the entire 500 KWs or more in new load are eligible for the E.D.R. discounts. To the extent that this requires a deviation from Finding 12, the Company respectfully requests a deviation and that it be allowed to apply the E.D.R. discounts to a new customer's entire load, as long as it meets the 500 KW base threshold and satisfies all other eligibility requirements.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

State whether Kentucky Power has discussed the proposed Tariff E.D.R. with any eligible existing or potential customer to determine the level of interest in the proposed tariff.

RESPONSE

Existing and prospective customers have inquired about the proposed E.D.R. discounts. However, since the Commission has not approved the proposed tariff, the Company has not made representation that either the proposed discounts will be available or in what form. We have been asked by site location consultants and potential customers individually if the Company has an E.D.R. available. Frequently, the number one driver for a potential customer is the estimated cost of electricity. The E.D.R. discounts will provide the Company with a competitive edge to attract potential customers to its service territory. Currently, some of the neighboring electric utilities have an E.D.R. Thus, Kentucky Power is currently at a competitive disadvantage in attracting higher volume users of electricity. The E.D.R. will be a very important tool in attracting investment and jobs to its territory.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

State whether Kentucky Power considered establishing a load factor requirement as part of its eligibility criteria for proposed Tariff E.D.R., and provide the basis for its decision not to include such a requirement.

RESPONSE

The Company considered establishing a customer's load factor as part of the eligibility criteria. Ultimately, the Company decided that including that as a part of the eligibility criteria would be too prescriptive and unduly limit the pool of potential customers seeking to locate in the service territory. The Company wanted the flexibility to effectively recruit a customer that may have a large load, but initially run a single shift with the potential to add shifts as the facility gets up and running and the business expands. Such a customer would have a poor load factor initially and if not for the E.D.R. discounts, may choose to locate elsewhere.

WITNESS: John A Rogness

Kentucky Power Company

REQUEST

Explain in detail the decision-making process Kentucky Power will use in determining which of the five discount periods to offer to a potential Tariff E.D.R. customer.

RESPONSE

The Company designed the varying discount periods to provide flexibility to enable it to be responsive to potential project requirements. Before the Company enters into a new contract extending E.D.R. discounts to new or existing customers, there will be discussions between the Company's Economic Development Manager, Customer Service Engineers and District Managers regarding the nature of the new project, the expected power requirements and load factor, the amount of the investment, expected number of new jobs, the project timeline, what new or upgraded facilities the Company may need to provide, the customer's requested discount period and contract length, etc. Both the Company and the customer will agree to the terms and conditions of the Tariff E.D.R. and the special contract prior to the contract being submitted to the Commission for approval. This contract term flexibility may prove to be the deciding factor to a customer willing to commit to a six year contract rather than a 10 year contract.

WITNESS: John A Rogness