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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 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	)	Case No. 2013-00144

AMENDED PUBLIC VERSION

POST-HEARING BRIEF OF

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

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September 23, 2013

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Kentucky Industrial Utility Customers, Inc. ("KIUC") is representing the interests of Air Liquide Large Industries U.S. LP, Air Products and Chemicals, Inc., AK Steel Corporation, Catlettsburg Refining LLC, a subsidiary of Marathon Petroleum LP and EQT Corporation, and submits its Post-Hearing Brief to the Kentucky Public Service Commission ("Commission") as follows:

I. INTRODUCTION AND LEGAL STANDARD

This is an important case of first impression. The Commission has never before been called upon to decide a case under the newly enacted KRS 278.271. The central issue facing the Commission in this case is whether the "*full costs*" of the ecoPower contract over its "*full term*" are "*fair, just and reasonable.*"

Under KRS 278.271, the Commission "*may allow recovery of costs which are not recovered in the existing rates of the utility for the purchase of electric power from a biomass energy facility that has received*" a state siting certificate. But, "[n]*o recovery shall be allowed unless the full costs of the purchase power agreement over the full term of the agreement ... have been found by the commission to be fair, just, and reasonable.*" In determining whether the ecoPower contract is "*fair, just, and reasonable, the commission may consider*" the policy of the General Assembly set forth in KRS 154.27-020(2) of "*achieving energy independence, creating new jobs and investment, and creating new sources of tax revenues that but for the inducements to be offered by the authority to approved companies would not exist.*" Finally, Commission "*approval of cost recovery under this section shall be valid for the entire initial term of the agreement.*" KRS 278.271 states in whole:

> "*Notwithstanding any provision of law to the contrary, upon application by a regulated utility, the commission may allow recovery of costs which are not recovered in the existing rates of the 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 pursuant to KRS 278.700 to 278.716. No recovery shall be allowed unless the full costs of the purchase power agreement over the full term of the agreement, which shall be included as part of the application, have been found by the commission to be fair, just, and reasonable. In determining whether the agreement is fair, just, and reasonable, the commission may consider the policy set forth by the General Assembly in KRS 154.27-020(2). The commission's approval of cost recovery under this section shall be valid for the entire initial term of the agreement.*
>
> *Section 2. Whereas it is of vital importance for the Commonwealth to incent businesses to advance the goals of energy independence and creating new jobs, an emergency is declared to exist and this Act takes effect upon its passage and approval by the Governor or upon it's otherwise becoming law.*"
>
> KRS 154.27-020(2) states in whole:
>
> "*(2) The General Assembly hereby finds and declares that it is in the best interest of the Commonwealth to induce the location of innovative energy-related businesses in the Commonwealth in order to advance the public purposes of achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenues that but for the inducements to be offered by the authority to approved companies would not exist.*"

In the context of a base rate case, "*fair, just and reasonable*" requires a balancing of the interests of ratepayers and the utility.[1] In a rate case, the Commission generally has the duty to set the "*lowest reasonable rate*" that also allows the utility to "*operate successfully, to maintain its financial integrity, to attract capital and to compensate its investors for the risks.*"[2] However in this case the utility is no worse off financially if the Commission rejects the contract than it is if the contract is approved. If the Commission approves the ecoPower Renewable Energy Purchase Agreement ("REPA"), then Kentucky Power will receive full cost recovery, but Kentucky Power will not earn a profit on the ecoPower REPA. The costs of the contract are simply passed-through to customers dollar-for-dollar without any rate of return for Kentucky Power. If the Commission does not approve the ecoPower contract, then Kentucky Power will not be any worse off financially, because again, Kentucky Power was not going to make a profit on the contract anyway. Therefore, the Commission's decision to approve or reject the ecoPower contract will have no financial impact on Kentucky Power and there is no utility shareholder interest to balance.

The financial interest of ecoPower is also not an issue to be considered under KRS 278.271. The Commission does not regulate the profits of the ecoPower investors. ecoPower is not even a party to this case. ecoPower is just another vendor, not unlike Kentucky Power's coal suppliers or the sellers of Kentucky Power's maintenance trucks. The interests of ecoPower and its investors are not a part of the Commission's consideration under the "*fair, just and reasonable*" standard under the newly enacted KRS 278.271.

Since Kentucky Power's economic interests are not directly impacted and since the Commission does not regulate the project developers, "*fair, just and reasonable*" must be viewed only from the

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[1] *National-Southwire Aluminum Co. v. Big Rivers Electric Corp.*, 785 S.W.2d 503, 514 (Ky. Ct. App. 1990) (upholding Commission rate determination in which "*interests of all parties are reasonably balanced.*").

[2] Generally, a utility is authorized to charge only the "*lowest reasonable rate*" that allows the utility to "*operate successfully, to maintain its financial integrity, to attract capital and to compensate its investors for the risks assumed even though they might produce only a meager return on the so-called 'fair value' rate base.*" *Comm. ex rel. Stephens v. South Central Bell Tel. Co.*, 545 S.W.2d 927, 931 (Ky. 1976) (citing *Hope Natural Gas,* 320 U.S. at 605).

perspective of ratepayers. Is the ecoPower contract in the best interest of Kentucky Power's ratepayers? From the economic perspective of consumers, the purchase of a power plant by a utility through a long-term contract is just the same as if the utility owned the power plant. Therefore, the traditional tests that this Commission has historically relied on – least-cost and need – are just as important here as if Kentucky Power were seeking permission to build its own power plant. To consumers, "*fair, just and reasonable*" means that the biomass plant is needed to provide adequate service and that it is the least-cost resource.

The KRS 278.271 concepts of "*full costs*" over the "*full term*" are new. Applying the plain meaning of those terms is not entirely straightforward. Full costs would ordinarily mean the entire amount consumers are charged, or the gross amount. As shown on Exhibit RKW-1, the first year full cost of the contract is $50.661 million. But Kentucky Power claims that the net cost of $35.151 million (after avoided fuel and capacity costs are deducted) is the relevant number. "*Full term*" is easy. There is no dispute that this means the twenty year contract term. Therefore, determining whether the "*full costs*" of the REPA over its "*full term*" are "*fair, just, and reasonable*" to consumers requires some type of twenty year present value economic analysis.

Finally, under KRS 278.271, the "*fair, just and reasonable*" standard "*may*" be considered in light of the policy goals of the General Assembly of: "*achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenue....*"[3]

We believe that Kentucky Power has failed to meet the requirements of KRS 278.271. As discussed *infra*, we will show that:

- Kentucky Power concedes that the ecoPower contract is not the least-cost resource;
- Kentucky Power concedes that if the Mitchell transfer is approved then the energy and capacity from the ecoPower contract is not needed;

[3] KRS §154.27-020(2)

- Kentucky Power has conducted no present value economic studies comparing the "*full costs*" (whether net or gross) of the contract over its twenty-year term to other alternatives;
- This is a no-bid contract for [redacted] dollars and there is no way to judge its cost effectiveness or reasonableness in the absence of a competitive solicitation;
- When the $4.133 million annual revenue requirement for imputed debt costs is included, the cost of the no-bid contract to consumers increases to [redacted];
- To the typical residential consumer, the first year excessive cost is $100.03 ($2,000.60 over the contract term), and with imputed debt included that excessive cost increases to $111.72 per year ($2,234.00 over the contract term);
- The Renewable Energy Credits ("RECs") that the project will produce are of zero value in Kentucky and will be produced through the ecoPower contract at $288 million to $432 million above market value;
- The ecoPower contract will cost consumers at least $700 million in excessive power costs over the term of the agreement;
- The ecoPower contract will be a net economic development negative for Kentucky Power's service territory. The contract will drain out of the economy $39.284 million per year in excessive power costs while providing, at most, only about $9.1 million in new wages and benefits. This will shrink the economy and result in net job losses and net tax revenue reductions.

KIUC is not against renewable power. We recognize that renewable power can be a valuable part of a diversified supply portfolio. We would even accept higher initial year costs if it was shown that the renewable resource was least-cost over time. But the ecoPower REPA is a bad deal for consumers from start to finish. This billion dollar plus, no-bid contract is grossly overpriced under any method of review. It will unnecessarily burden residential consumers, many of whom already struggle in poverty, will make industry less competitive, and will suppress overall economic growth.

II. ARGUMENT

1. Kentucky Power Has Not Met The Requirements Of Senate Bill 46 (KRS § 278.271).

a. Kentucky Power Has Failed to Demonstrate The Full Costs Of The REPA Over Its Full Term Are Fair, Just, And Reasonable.

Kentucky Power seeks approval of its REPA with ecoPower under SB 46, codified at KRS 278.271. Under KRS 278.271, the full costs of the REPA over the full term of the agreement must be found by the Commission to be fair just and reasonable:

> "*No recovery shall be allowed unless the full costs of the purchase power agreement over the full term of the agreement, which shall be included as part of the application, have been found by the commission to be fair, just, and reasonable.*"

KRS 278.271 contains this requirement because once a biomass power plant is approved for recovery from ratepayers under KRS 278.271 the Commission can never revisit that decision. The prohibition against subsequent Commission review would appear to apply even if there was a change in the law, if lower cost resources were available, or for any other reason that we cannot envision now. KRS 278.271 states that, "[t]*he commission's approval of cost recovery under this section shall be valid for the entire initial term of the agreement.*"

Kentucky Power has failed to show that the full costs of the REPA over its full term are fair just and reasonable. Kentucky Power has not provided any evidence in its Application or testimony that addresses the reasonableness of the price of the REPA over the 20 year term of the agreement. The only information that the Company has provided relating to the full costs of the REPA is a schedule that shows what the costs will be in each year of the agreement. It is not enough to simply show how much the power will cost each year of the agreement. While Kentucky Power has shown what the price will be, it has not shown that the price will be "*fair, just, and reasonable*" over the full contract term. Kentucky Power has not submitted, for example, any analysis showing how the cost of the REPA compares to Kentucky Power's projections of other generation sources or market prices over the 20 year term of the REPA. Nor did the Company conduct a competitive solicitation for resources whereby it could gauge how

the costs of the REPA compare to alternatives. KIUC witness Mr. Taylor concluded that "[a]*bsent such a process, the Company has judged and executed the ecoPower REPA in a vacuum, and by its Application, is asking the Commission to approve the transaction without the Commission having any way of determining that its costs are fair, just, and reasonable.*"[4]

Kentucky Power presented no evidence claiming that the proposed REPA is the least-cost means of providing energy and capacity to its customers over the full contract term and concedes that it conducted no studies or analysis to determine whether the REPA is least-cost. In response to Commission Staff 1-11, Kentucky Power states:

> *"Neither Kentucky Power, American Electric Power ("AEP"), or any AEP subsidiary or affiliate has performed any economic studies or analysis in connection with the ecoPower biomass facility."*[5]

In response to KIUC 1-13 which asked whether Kentucky Power "*performed any studies in order to identify the least-cost means of providing energy and capacity to Kentucky Power*," the Company stated. "[t]*here were no studies performed.*"[6]

Not only did Kentucky Power make no attempt to determine whether the proposed REPA will provide the least-cost capacity and energy, Kentucky Power did not even attempt to determine whether the REPA will provide the least-cost *renewable* capacity and energy. In response to KIUC 1-12, Kentucky Power stated that it "*did not conduct an RFP to determine the least-cost "renewable" capacity and energy.*"[7] Therefore, Kentucky has not met its burden of proof under KRS 278.271 and the Commission should reject the proposed REPA on this basis alone.

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[4] Taylor Direct testimony at 5.

[5] KIUC Cross Ex. 2, p. 1.

[6] KIUC Cross Ex. 2, p. 2.

[7] KIUC Cross Ex. 2, p. 3

b. Kentucky Power Has Failed To Demonstrate That The Proposed REPA Promotes The Policy Set Forth By The General Assembly In KRS 154.27-020(2).

Under KRS 278.271, in determining whether the proposed REPA is fair, just, and reasonable, the Commission may consider the policy set forth by the General Assembly in KRS 154.27-020(2). 154.27-020(2) states:

> "*The General Assembly hereby finds and declares that it is in the best interest of the Commonwealth to induce the location of innovative energy-related businesses in the Commonwealth in order to advance the public purposes of achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenues that but for the inducements to be offered by the authority to approved companies would not exist.*"

Kentucky Power's Application and testimony bases its conclusion that the REPA will benefit the Eastern Kentucky economy on the simplistic assumption that the construction and operation of the ecoPower biomass facility will create some new jobs so it must therefore provide an economic benefit. The Company states in its Application:

> "*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.*"[8]

Beyond this basic quantification of the number of jobs and wages paid to employees, Kentucky Power did no further study of the economic impact of the proposed REPA. Obviously, the creation of new jobs is a good thing for the economy all else being equal, but the benefit of new jobs must be weighed against the cost of the REPA to Kentucky Power's ratepayers in order to determine if the REPA in fact creates, *"new jobs and new investment, and... new sources of tax revenues,"* as envisioned by KRS 154.27-020(2). The evidence clearly shows that the $35.151 million to $39.284 million price (factoring in imputed debt) of the REPA overwhelms any benefit of new job creation provided by the

[8] Application, p. 9.

proposed biomass facility, making the REPA a net job killer and a net economic loser for Eastern Kentucky.

The analysis is simple. Even assuming that all of the 225 permanent jobs that ecoPower claims will be provided by the ecoPower facility are incremental/new jobs, and as will be explained later in this Brief the evidence suggests that many of these jobs are not incremental, the claimed 225 jobs add only about $9.1 million to the local economy according to Kentucky Power's data.[9] So the ecoPower facility will contribute, at most, $9.1 million to the local economy in wages, but it will pull out $39 million per year in unneeded rate increases to Kentucky Power's ratepayers. The $30 million difference between the cost of the $39 million per year cost to ratepayers of the REPA and the $9.1 million per year in wages paid to workers hired to operate the facility will almost entirely be exported out of Kentucky Power's service territory. This $30 million will go to ecoPower's investors, out-of-state or overseas to the manufacturers of the turbines and other equipment that are installed at the ecoPower facility, it will pay for the trucks and chainsaws and all of the other tools needed to feed the biomass facility. As KIUC witness and Emeritus Professor of Economics University of Louisville, Dr. Paul Coomes, stated at hearing:

> "[I]*f you've got, let's say $35 million in new revenues and you're only paying out 6, 9, $10 million in wages and salaries, the rest of it has to go for capital equipment and supplies. Trucks will be purchased, chain saws will be purchased, other things to operate the plant will be purchased. Most of those things are probably not made in Eastern Kentucky, which creates kind of a leakage. So if you purchase trucks, large trucks, I don't think there's a truck factory in Eastern Kentucky, so that money is going to wherever the community is that makes trucks. Chain saws, the money is going to the plant - the community that has the plant that makes chain saws. So you've got a leakage there. Unless you can establish the fact that all the things that go into running the plant are produced in Eastern Kentucky, you've got a leakage of dollars.*"[10]

All, or almost all, of the $39 million in REPA costs above the $9 million paid to workers will immediately leave the Eastern Kentucky economy. It doesn't take an economist to understand that when a local economy pays $39 million per year to get $9 million worth of jobs the local economy will shrink.

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[9] Transcript 8-28-13, Confidential, pp. 18-19.

[10] Transcript 8-28-13, pp. 274-275.

At hearing, Kentucky Power witness Greg Pauley made the argument that the $9 million in wages to local workers should be counted several times because of the "*multiplier effect.*" Mr. Pauley stated:

> *"That doesn't -- that doesn't include the multiplier effect, and I don't know -- different economists -- I'm not an economist, but different economists say three, four, five, six times, you know, payroll is the multiplier because of people buying groceries and buying new cars and things like that that creates follow-on jobs."*[11]

While there may be truth to Mr. Pauley's conclusion that money paid into a local economy reverberates multiple times locally as workers spend their money in the local economy, this is another case of Kentucky Power only looking at one side of the equation. As Dr. Coomes testified, the "*multiplier effect*" works in both a positive and negative direction.[12] When ratepayer's electric bills increase by $100 to $111 per year for the average residential household, because Kentucky Power entered into an overpriced long-term contract for power that is not needed to serve customers, residential customers have less money to spend on goods and service in the local economy. Commercial ratepayers have less money to hire new employees and industrial ratepayers are less profitable, are less likely to expand their operation and more likely to close their plants. All of this has a negative multiplier effect. When customers are asked to absorb $39 million in additional costs per year, and the local economy only receives $9.1 million in new wages as a result, the REPA is a net drain on the economy. As Dr. Coomes explained, "[i]*f you take twice as much out as you put in, the economy will get smaller.*"[13] In this case the ecoPower REPA is taking about four times as much out of the economy as it puts back in.

This all assumes that the wages from incremental jobs is actually $9.1 million. There is a genuine question as to whether many of the trucking jobs are actually new jobs. According to an ecoPower "Due Diligence" memo,[14] much of the residual wood waste (woodchips, sawdust and bark) that will be transported to the ecoPower facility to use as fuel to generate electricity is currently being removed from Pine Mountain Lumber's operation in Whitesburg, Kentucky and is shipped by truck to a Domtar paper

[11] Transcript 8-28-13, Confidential, p. 52.

[12] Transcript 8-29-13, p. 274.

[13] Transcript 8-29-13, p. 276.

[14] Marked at the hearing as KIUC Cross Ex. 4, *see* Item 24.

mill in Kingsport, Tennessee where it is used as a raw material in manufacturing paper products. This memo suggests that the ecoPower biomass facility will not actually create all of the trucking jobs that it and Kentucky Power claim are incremental, new jobs. The trucks that are currently transporting this wood residual 90 miles south to a paper mill in Kingsport, Tennessee, will instead haul the wood residual about 30 miles northwest to the new biomass facility. When confronted with this question at hearing, Kentucky Power witness, Greg Pauley, simply stated that he does not know whether these jobs are incremental or not.[15] Here, Kentucky Power again fails to meet its burden of providing basic information in support of its case. The Commission cannot assess the economic impact of the new jobs created by the ecoPower facility because Kentucky Power has not provided reliable information and cannot answer basic questions regarding how the little information that it does present was calculated. If some or all of the trucking jobs that are claimed by ecoPower and Kentucky Power are not incremental, as the ecoPower memo suggests, then the economic impact of the REPA on Eastern Kentucky is even less than $9.1 million.

2. The Proposed ecoPower Contract Is Not "*Fair, Just And Reasonable*" Because, As Kentucky Power Concedes, The ecoPower Contract Is Not Needed To Serve Ratepayers.

The Commission has previously applied the requirements of the Certificate of Public Convenience and Necessity statute (KRS 278.020(1)) to an application by a utility for approval of a REPA stating, among other things in Case No. 2009-00545, that the utility bears the burden to prove that there is a need for the capacity and energy. In that case the Commission rejected a similar request by the Kentucky Power to enter into a REPA with FPL Illinois Wind, LLC to purchase the output and environmental attributes for 100 mW of wind power over a 20 year term. The Commission found that it was required to "*analyze the need for this additional generating capacity*" pursuant to the statutory requirements for the certification of new facilities as set forth in KRS 278.020(1).[16]

[15] Transcript 8-28-13, Confidential, p. 12.

[16] Case No. 2009-00545, Order of June 28, 2010 p. 5.

In this case, Kentucky Power fails this requirement as it readily admits in its response to KIUC 1-19 that it did not conduct any "*studies or analysis demonstrating* [its] *need for energy and capacity supplied by the REPA.*"[17] Further, Kentucky Power concedes that it does not need the capacity and energy provided by the REPA in order to service its native load if the Mitchell transfer and Big Sandy Unit 1 conversion to natural gas, which are proposed by Kentucky Power in Case No. 2012-00578, are approved. Kentucky Power states in response to Commission Staff 2-1(b):

> "*Assuming the Mitchell transfer is approved, and further assuming Big Sandy Unit 1 were to be retired and replaced with an alternative, more cost-effective supply source of roughly equivalent capacity (and energy), the REPA capacity and energy would not be required.*"[18]

In summary, Kentucky Power conducted no study or analysis in this case that demonstrates a need for the REPA and concedes that under its current generation resource plan there is no need for the capacity and energy provided by the REPA. Therefore Kentucky does not meet its burden to show that the costs under the REPA are fair, just, and reasonable. The Commission can and should reject the proposed REPA on this basis alone.

3. The Proposed ecoPower Contract Is Not "*Fair, Just And Reasonable*" Because, As Kentucky Power Concedes, It Is Not The Least-Cost Means Of Providing Energy And Capacity To Ratepayers.

a. Kentucky Power Failed To Meet Its Burden Of Demonstrating That The Proposed REPA Is The Least Cost Resource.

As explained above, the Commission's Order in Case No. 2009-00545 stated that a utility seeking approval of a REPA is required to show that the proposed REPA is least-cost. The Commission stated:

> *"The Commission has long recognized that "least-cost" is one of the fundamental principles utilized when setting rates that are fair, just, and reasonable.*
>
> *The fundamental principle of least-cost is also embedded in KRS 278.020(1), which prohibits a utility from constructing a new facility to provide service to the public until it*

[17] See KIUC Cross Ex. 2, page 4.

[18] See KIUC Cross Ex. 2, page 5.

has demonstrated both a need for the new facility and that its construction will not result in wasteful duplication. Even though Kentucky Power is not now proposing to construct new generating facilities, its proposal to enter into a long-term contract to purchase such generation will have the same operational and financial implications and impacts to the utility and its ratepayers as if new generation were being constructed.

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[T]he proposed 20-year wind power contract has not been shown to be least-cost compared to Kentucky Power's available energy sources."[19]

The Commission rejected a request by Kentucky Power for approval of a REPA in part because it failed to demonstrate that it was the least-cost alternative. In this case, Kentucky Power again fails to meet its burden of showing that the proposed REPA is the least-cost source of capacity and energy, or even that it is the least-cost renewable source of capacity and energy.

As stated above, Kentucky Power presented no evidence claiming that the proposed REPA is the least-cost means of providing energy and capacity to its customers over the full contract term and concedes in its responses to Commission Staff 1-11, and KIUC 1-12 and 1-13 that it has no evidence that the proposed REPA is least-cost. The Commission can and should reject the proposed REPA on this basis alone.

b. The Proposed REPA Will Cost Kentucky Power's Ratepayers Over $700 Million In Excessive Power Costs Over The 20 Year Life Of The Contract.

The proposed REPA is not only not "*least-cost*," it is in fact shockingly expensive. The first year price to ratepayers of the no-bid ecoPower contract is $50.7 million. The cost to ratepayers escalates each year by [redacted] through the final year of the 20 year contract when the annual cost will be over $77 million. The total revenue requirement for the ecoPower REPA over 20 years is [redacted].[20] Because the REPA will be imputed as debt by the rating agencies Kentucky Power will need to add

[19] Case No. 2009-00545, Order of June 28, 2010 pp. 5-6.

[20] See KIUC Response to Kentucky Power 1-1.

additional equity to its capital structure. This will cost consumers an additional $4.133 million per year, raising the total cost under the no-bid REPA to [redacted].[21]

The total capital cost of the proposed 58.5 MW biomass facility is [redacted] or about [redacted] per kW.[22] To put the cost of this proposed biomass facility into perspective, on May 3, 2012 the Commission approved a CPCN for Louisville Gas & Electric's and Kentucky Utilities Company's ("LG&E and KU") to construct a 640 MW Cane Run natural gas combined cycle unit in Jefferson County, Kentucky at a cost of $911 per kW.[23] As a part of the same docket, the Commission also approved a request by LG&E and KU to purchase 495 MW natural gas simple cycle generation facilities from Bluegrass Generation at a cost of $222 per kW.[24] The Commission also has, as a recent comparison, Kentucky Power's application to acquire 50% the Mitchell Generating Station currently pending in Case No. 2012-00578. The purchase price of this 780 MW, fully scrubbed coal station is $689 per kW.[25] In summary, the proposed ecoPower biomass facility is [redacted] times more expensive on a per kW basis than Cane Run, almost [redacted] times more expensive on a per kW basis than the proposed Mitchell acquisition and almost [redacted] times more expensive on a per kW basis than the Bluegrass facilities. The following graph shows the relative capital costs of these recent generation acquisitions and proposed generation additions in Kentucky:

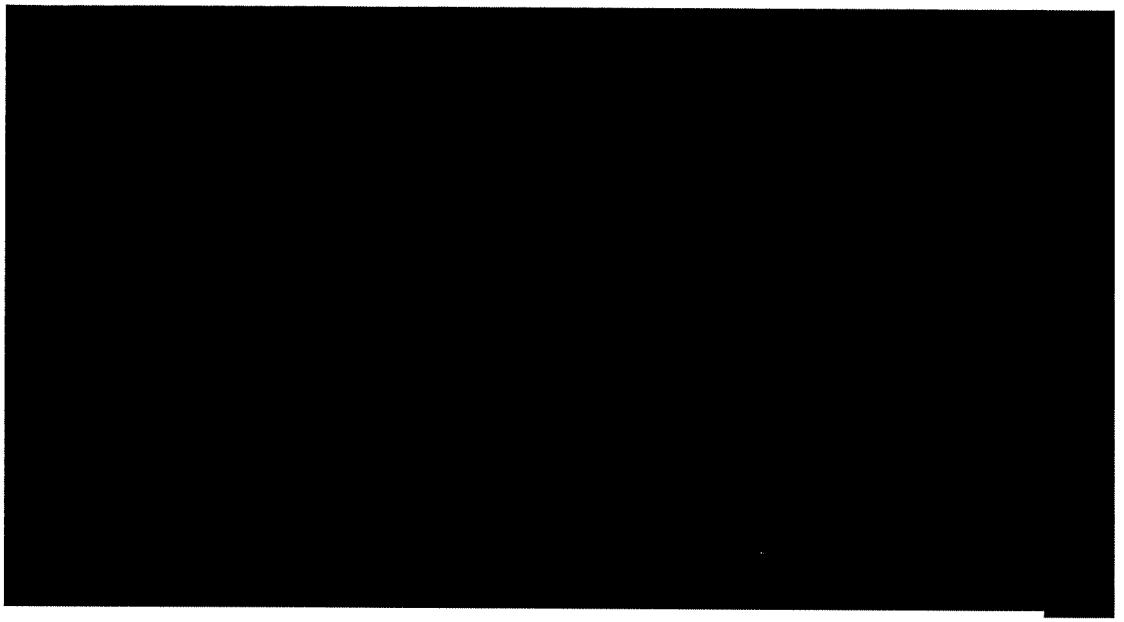
[21] Direct Testimony of Lane Kollen, p.15.

[22] Transcript 8-28-13, Confidential, p. 54.

[23] See KPSC Case No. 2011-00375, Order dated May 3, 2012.

[24] See KPSC Case No. 2011-00375, Direct Testimony of Paul Thompson, p. 5. The Bluegrass transaction was ultimately cancelled by LG&E and KU due to conditions imposed on the sale by FERC.

[25] See Case No. 2012-00578, Brief of KIUC dated August 12, 2013, p. 2 and p. 12.



The ecoPower facility is scheduled to go on line in January of 2017 with an initial cost to Kentucky Power ratepayers of [redacted]. This initial purchase price is subject to a [redacted] annual escalator that increases the price to [redacted] by the end of the contract.[26] Again, to put the price of the ecoPower transaction into context, the first five years of the Kentucky Power's pending Mitchell transaction is projected to average only $60/MWh.[27] The chart below compares the price per MWh of the ecoPower REPA (shown with and without imputed debt) to the cost to ratepayers of the first 5 years of the Mitchell facility. KIUC charted only the first 5 years of Mitchell because the price beyond 5 years is subject to several variables.

[26] Transcript Volume 1, p. 6.

[27] KIUC Cross Ex. 1, p. 2. Supplemental Testimony of Richard E. Munczinski in Case No. 2012-00578.

[redacted]

Per the terms of the REPA, Kentucky Power is required to buy all of the electricity generated by the ecoPower facility. It will be dispatched before lower cost units owned by Kentucky power.[28] The ecoPower facility is projected to have an 88% capacity factor and produce 450,000 MWh per year. At [redacted], the first year purchase cost is therefore more than $50 million. Kentucky Power claims that $15 million of this constitutes "*avoided*" energy and capacity costs so that the first year net increase is only $35 million or about a 7% increase to customer bills. It should be noted that the incremental increase from the ecoPower REPA would be 5.99% if the Mitchell transfer and the Big Sandy 1 conversions are factored into rates.[29] Nevertheless as things stand today, Kentucky Power's calculation of the incremental rate increase as a result of the REPA is shown below:[30]

[28] Transcript Volume 2, p. 292.

[29] Kentucky Power's Response to Commission Staff's August 28-29, 2013 Post Hearing Data Requests, Item 3.

[30] Exhibit RKW-1. Also provided in KIUC Cross Ex. 3, p. 4.

Kentucky Power Company
Estimated Year 1 Impact on Cost of Service
ecoPower REPA

Line	Description	Amount
1	Estimated Purchase Power Costs	$ 50,661,000
2	Less:	
3	Avoided Fuel Costs	$ 12,780,000
4	Avoided Capacity Costs	$ 2,730,000
5	Incremental Rev. Req. (L1 – L3 – L4)	$ 35,151,000
6	KPCo Juris. Sales Revenue – 2012	$501,037,000
7	Percent Increase (L5 / L6)	**7.02%**

According to Kentucky Power's numbers submitted in this case, consumers are being asked to pay $700 million in unnecessary rates over 20 years ($35 million X 20 years).[31] (Note that this calculation does not factor in the annual [redacted] escalator or the cost of imputed debt.) This equates to an annual cost to the average residential customer of this unneeded REPA of $100 above avoided costs.[32]

These figures do not include an adjustment for the effects on base and environmental surcharge rates of a richer per books common equity ratio that Kentucky Power acknowledges will be necessary in order to offset the additional debt imputed by the credit rating agencies ("imputed debt") for such purchased power agreements. Although the REPA will not require the Company to actually issue additional financing, the treatment by the credit rating agencies of the REPA as a debt equivalent will require the Company to increase its actual common equity by displacing or avoiding the issuance of lower cost debt in order to maintain its credit metrics.[33]

Kentucky Power conceded in its discovery responses that the rating agencies will treat the REPA as the equivalent of debt and that Kentucky Power will seek to recover the cost of additional equity from ratepayers. In response to KIUC 2-15, the Company stated "[t]*o the extent that additional equity is necessary to maintain the BBB/Baa2 investment grade rating, KPCo expects to earn a return on that*

[31] See KIUC Cross Ex. 3, page 1.

[32] KIUC Cross Ex. 3.

[33] Its present bond ratings reflect a capital structure of approximately 55% debt and 45% common equity.

equity in rates." The Company provided calculations of the debt equivalents and the additional per books common equity that will be necessary due to the REPA under a 25% risk factor in response to KIUC 1-38. Standard & Poor's states that it will employ a risk factor of 25% if there is a power cost adjustment mechanism, such as that proposed by the Company in this case. More specifically, S&P states: "*In cases where a regulator has established a power cost adjustment mechanism that recovers all prudent PPA costs, we employ a risk factor of 25% because the recovery hurdle is lower than it is for a utility that must litigate time and again its right to recover these costs.*"[34] Kentucky Power witness, Ranie Wohnhas calculated a debt equivalent of [redacted] million for a 25% risk factor and calculated the additional per books common equity necessary for this debt equivalent of [redacted] million.[35] As a result, when you factor in imputed debt, the initial rate increase will be $39.284 million, or 7.8% on a total revenue basis, rather than $35 million and 7% as maintained by Kentucky Power.[36] This equates to an additional $111.72 per year in excessive and unneeded costs to the average residential customers, or $2,234 in excessive costs to the average residential consumer over the full contract term.[37]

c. The RECs That Will Be Generated By The ecoPower REPA Are Of Questionable Value And Are Not Likely To Provide A Significant Offset To The Costs Of The ecoPower Transaction.

Kentucky Power argues that the value of renewable energy credits (RECs) created by the ecoPower facility, which will flow to Kentucky Power, may offset some of the high costs of the proposed REPA. A simple way to look at this issue is by calculating the REC cost built into the contract. As described above, the first year contract cost is $50 million. If the avoided energy and capacity from the ecoPower contract is worth $15 million, then the excess cost of $35 million is the premium being paid for the RECs the project will produce in the first year of the contract. If we use the numbers provided by

[34] Standard & Poors; "*Methodology for Imputing Debt for U.S. Utilities' Power Purchase Agreements*," cited in the Direct Testimony of Lane Kollen, p. 14.

[35] Direct Testimony of Lane Kollen, pp. 14.

[36] Direct Testimony of Lane Kollen, p. 12.

[37] KIUC Cross Ex. 3.

Kentucky Power in this case, the first year cost that Kentucky Power's customers will pay for each of the 450,000 RECs produced by the ecoPower facility is $78.00 ($35,000,000/450,000 MWh).[38]

KIUC witness, Alan Taylor took this analysis a step further in an attempt to quantify the cost to customers of the proposed REPA above avoided costs and above Kentucky Power's projected RECs sales over the life of the 20-year agreement. Using the Company's latest forecast(s) of future energy and capacity prices (for power purchases and sales at the AEP generating hub) as provided in the Company's response to KIUC data request 2-10, Mr. Taylor performed two analyses, one with the base case price assumptions and a second with the alternative scenario that had the highest market energy and capacity price assumptions (because this would yield the lowest, most optimistic estimate of the cost of the ecoPower RECs). Under base case assumptions, Mr. Taylor determined that the RECs from the project would cost the Company an average of over $50/REC over the life of the REPA. For the highest market energy and capacity price scenario, the average was over $38/REC. In order to keep things simple, Mr. Taylor did not include the debt equivalence costs that are discussed above. Had he included the debt equivalence, the REC costs would have been even higher. Generating RECs at these prices is unlikely to result in cost-effective sales if the market price of RECs remains in the range of $2/REC-$6/REC. Indeed, such sales would yield a significant loss.[39] If one uses the 450,000 MWh/year estimate of generation from the ecoPower project that the Company provided in its response to KIUC data request 2-6, a $38 REC cost and a $6 REC sales price, the above-market loss for customers would be $288 million. With a $50 REC cost and a $2 REC sales price, the above-market loss for customers would be $432 million.[40] However, even these $288 million-$432 million above market cost numbers may be understated because the value of the RECs produced through the REPA and Kentucky Power's ability to sell the RECs is highly speculative.

[38] Transcript Volume II, p. 224, lines 9-19.

[39] See Direct Testimony of Alan Taylor p. 15.

[40] See Direct Testimony of Alan Taylor p. 16.

So what are these RECs worth? Kentucky Power and the other Kentucky electric utilities have no current need for RECs, since there is no mandate for renewables and no renewable portfolio standard ("RPS") in Kentucky. Therefore the value of these RECs in Kentucky is zero. Any value that Kentucky Power hopes to realize from the 450,000 RECs provided annually by the REPA will have to come from sales to generators in other states. The evidence in the record is that REC prices in other states have recently been quoted in the $2-$15 range.[41] However, marketing RECs is not like selling a commodity. Kentucky Power cannot simply sell all, or perhaps any, of its 450,000 RECs for the quoted market price.

First, each state that uses RECs has different rules concerning the type and vintage of RECs that can be used to meet its emission standard, some of which would prevent Kentucky Power from marketing its RECs to generators in other states. "Open loop biomass"[42] projects, such as the ecoPower project, may not be considered environmentally friendly in some states and RECs produced by such facilities are disfavored. Additionally, some states limit the amount of RECs that can be used from out-of-state sources and place strict expiration dates on RECs. These expiration dates may cause RECs to lose value very quickly. KIUC witness, Alan Taylor explained at hearing:

> *"Throughout PJM, though, each state has different rules. For example, a number of the states have solar RECs that need... to be part of their RPS requirement, so those might trade at a premium. I know New Jersey has rules against procuring any biomass RECs unless it can be proven that the biomass is, quote, cultivated and harvested in a sustainable manner, unquote...*[43] *So* [the ecoPower biomass facility] *is an open loop using waste wood feature* [that may not meet the New Jersey standard]. *Other states could adopt similar kind of prohibitions."*[44]
>
> ***
>
> *"Another thing to note about these RECs is they do have a shelf life. There are various state requirements. Ohio says that half of the renewable energy must come from within state,*[45] *and what is pulled in from out of state has to meet various other requirements and*

[41] Transcript Volume 1, p. 118, lines 6-10. See also Big Rivers Response to PSC 1-5.

[42] The term: open-loop biomass" means - (i) any agricultural livestock waste nutrients, or (ii) any solid, nonhazardous, cellulosic waste material or any lignin material which is segregated from other waste materials and which is derived from - (I) any of the following forest-related resources: mill and harvesting residues, precommercial thinnings, slash, and brush, (II) solid wood waste materials... but not including municipal solid waste, gas derived from the biodegradation of solid waste, or paper which is commonly recycled, or (III) agriculture sources. Source: Tax Code Title 26, Subtitle A, Chapter I, Subchapter A, Part IV, Subpart D, Sec. 45(c)(3).

[43] New Jersey Statutes § 48:3-51

[44] Transcript Volume 2, pp. 228-229.

[45] Oh. Revised Code Section R.C. 4928.64.

certainly has to be produced within the last five years. Maryland has a three-year shelf life...[46] *So if you're trying to sell these RECs to say different counterparties, it can be challenging. The buyers are certainly going to be looking at their own state requirements and seeing whether your RECs, as they have been cataloged and certified through this GATS system, are going to allow them to be qualified within their state RPS requirements."*[47]

The second reason that Kentucky Power may have difficulty marketing the RECs produced by the ecoPower facility is that the REPA makes Kentucky Power a merchant seller of vast amounts of RECs. Kentucky Power, which again has no use for the RECs that it produces due to the lack of an RPS in Kentucky, will be attempting to sell 450,000 RECs per year into a relatively undeveloped market. This could have the effect of reducing the market price of RECs or simply making it impossible to market all of the RECs that Kentucky Power has in its inventory. Mr. Taylor explained at hearing:

"The REC market out there is primarily used for kind of topping off annual requirements, but we're talking about a facility here that's going to produce close to half a million RECs per year. If there's no need for those in Kentucky, which currently there's no RPS statute, and that may change, but going on that premise for a moment that these are now ready to be dumped in the market, I think that puts quite a depressing influence on the market price."[48]

Finally, there is simply no evidence in the record for the Commission to base a determination that the RECs that will flow through to Kentucky Power through the REPA will have any significant value. Kentucky Power never developed a forecast of REC prices. Kentucky Power executed the REPA without ever having analyzed projections of REC costs versus potential REC sales revenues (if any might be realized). The Commission simply has no basis for evaluating how REC sales will impact the cost of the REPA to ratepayers. Kentucky Power is essentially asking its customers to pay for an unneeded factory that produces RECs at a first year cost of $78.00 per REC. There is no evidence in the record that indicates that the RECs produced through the REPA can be marketed for anything close to $78.00 per REC. In fact there is no evidence in the record that 450,000 of these RECs per year can be marketed at all.

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[46] Md. Code, Public Utilities, 7-709.

[47] Transcript Volume 2, pp. 230.

[48] Transcript Volume 2, pp. 229-230.

d. There Is No Basis For The Commission To Conclude That The REPA Is "*Least - Cost*" Because Kentucky Power Did Not Conduct An RFP And Did Not Provide Any Analysis Comparing The Cost Of The REPA To Other Alternatives.

Kentucky Power failed to issue a Request for Proposal ("RFP") for any capacity or energy, generally, or for renewable capacity or energy, specifically.[49] Thus, even if there were a need for capacity or energy, the Company considered no other options and there are no objective benchmarks against which to compare the Company's proposed REPA. Therefore, Kentucky Power has failed in its burden of demonstrating that the proposed REPA is either the least-cost source of generation, or the least-cost source of renewable generation for its customers.

In response to KIUC data request 1-1 and Staff data request 1-11, the Company admitted that it neither conducted a solicitation nor performed any economic studies or analyses in connection with the ecoPower transaction. Without the results of a solicitation or at least some compilation of market information, there is no basis for judging the cost-effectiveness of the ecoPower transaction. Thus, there is no context or analysis from which to conclude that the ecoPower transaction represents the utility's least-cost option for achieving its stated goals.

In response to KIUC's argument that the Commission cannot effectively evaluate the cost-effectiveness of the REPA without the Company conducting an RFP, Kentucky Power witness Greg Pauley stated that the, "*ecoPower REPA presented a unique opportunity for Kentucky Power to meet its capacity and energy obligations while, at the same time, diversifying its fuel portfolio and supporting a potential economic development engine in its service territory.*"[50] Kentucky Power has failed to explain why the proposed billion dollar plus REPA is so uniquely beneficial to its ratepayers as to excuse Kentucky Power from conducting an RFP or at the very least conduct an economic analysis to determine if the transaction is cost effective.

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[49]The Company failed to issue an RFP in Case No. 2009-00545 (proposed REPA with FPL Illinois Wind), Case No. 2011-00401 (proposed Big Sandy 2 environmental retrofits), Case No. 2012-00578 (acquisition of 50% of Mitchell units).

[50] Rebuttal Testimony of Greg Pauley, p. 3.

KIUC witness, Alan Taylor, a national expert in renewable and conventional power procurement, testified that the utility industry norm is to conduct solicitations when seeking long-term power supplies. Mr. Taylor notes that utilities occasionally bypass the RFP process when there is a compelling value proposition with pressing time constraints. In some cases a solicitation would take too long to conduct and the opportunities require expedited consideration to capture their benefits.[51] For example, key parts of a project (e.g., equipment agreements, options on land, transmission queue status, etc.) may be about to expire or beneficial tax provisions may be about to sunset. In such circumstances, the developer may be willing to offer rather low, attractive prices to a utility for a near-term power supply agreement. However, even under these circumstances, the utility usually evaluates the opportunity in the context of some sort of comparative information (e.g., results from an earlier solicitation conducted by that utility, results from an affiliate's solicitation, market reports, etc.).[52] However, the key factors that would excuse a utility from conducting an RFP, (a lack of time to conduct an RFP, and extremely favorable price), did not apply to the ecoPower REPA.

There was ample time for Kentucky Power to conduct an RFP. Kentucky Power began negotiating with ecoPower in the latter part of 2010 and did not file the REPA with the Commission until April 11, 2013. In the two and a half years that the REPA was being negotiated with ecoPower, Kentucky Power had the time and opportunity to conduct several REPAs in order to compare ecoPower's prices to other options. In fact, earlier this year, Kentucky Power's sister-AEP company Indiana Michigan Power Company (I&M) conducted an RFP for renewable power that took less than 4 months from the time the RFP was issued to the time that I&M executed a REPA with the winning bidder.[53]

With respect to price, the evidence strongly shows that the proposed billion dollar plus REPA is not a "*value proposition*," that would excuse Kentucky Power from conducting an RFP. As discussed above, the proposed REPA is extremely expensive relative to other power available, even other renewable

[51] Direct Testimony of Alan Taylor, p. 9.
[52] Direct Testimony of Alan Taylor, p. 10.
[53] See KIUC Cross Ex 6. p. 2.

options. As Mr. Taylor testified, when the original ecoPower offer of [redacted]/MWh was provided to the Company in late 2010, the contract price may have been competitive, however, over the ensuing two and a half years of negotiations the contract price rose [redacted][54] to [redacted] in the first year of the REPA and [redacted] in year 20. Over this same two and a half year period market prices from competing renewable technologies have steadily declined.

Kentucky Power's only stated justification for not conducting an RFP is that it maintains that it did not need to conduct an RFP because it issued an RFP to replace the 278 MW Big Sandy Unit 1 on March 28, 2013 and "*no renewables were submitted into that RFP.*"[55] This argument is flawed for several reasons. First and foremost, Kentucky Power conducted its Big Sandy 1 RFP after it had already signed its agreement with ecoPower. The argument that it did not conduct an RFP to test the price of the renewable, ecoPower REPA, because no renewables bid into the Big Sandy 1 REPA is invalid because Kentucky Power had not even conducted its Big Sandy 1 REPA when it agreed to the ecoPower REPA.

Second, it can be costly and time consuming to get a qualifying bid ready for an RFP. Electric providers typically do not prepare bids for RFPs unless they believe that there is a reasonable chance for success. The Big Sandy 1 RFP stated that Kentucky Power was interested in replacing the base load capacity and energy of the 278 MW Big Sandy coal unit, required a minimum bid of 50 MW and only mentioned renewable options in a brief footnote. The Big Sandy 1 RFP was clearly targeting traditional, base load generation, and not renewables. In a state like Kentucky that does not have a renewable portfolio standard it would be reasonable for renewable providers to assume that Kentucky Power had satisfied whatever appetite they had for renewable power through the ecoPower REPA which had recently been signed.

Third, the primary purpose of an RFP is not to see what type of energy resources bid in, as Kentucky Power seems to imply, but to get the best price and the best terms. If Kentucky Power believed

[54] See KIUC Cross Ex. 7, p. 6, which shows that the June 30, 2011 proposal data sheet had a start-year price of $75.81.

[55] Transcript Volume 1, p. 51.

that there was a need for renewable power in its portfolio it should have issued a RFP for renewable power, or even an RFP for Kentucky-based renewable power. ecoPower would have had the opportunity to bid into the RFP and compete with other suppliers for Kentucky Powers' business. This may have resulted in Kentucky Power finding a more cost-effective renewable option than ecoPower, or it may have even resulted in ecoPower bidding in at a lower price than the price contained in the proposed REPA. Kentucky Power would have gained valuable information concerning the cost of renewable sources, the cost of Kentucky-based renewable sources, and what premium, if any, it would have to pay for these specific types of electric generation sources. The Commission does not have any of this information as it reviews the proposed REPA, because Kentucky Power didn't conduct an RFP.

e. Kentucky Power Failed To Negotiate A Reasonably Priced REPA On Behalf Of Its Ratepayers.

In July of 2012 Kentucky Power and ecoPower signed a Memorandum of Understanding ("MOU") with a purchase price of [redacted]/MWh. A month later, on August 19, 2011 ecoPower informed Kentucky Power that it needed an additional [redacted]/MWh:

"[redacted]."[56]

This [redacted]/MWh offer from ecoPower would increase the first year contract price to [redacted]/MWh. AEP's initial response to this demand was to inform ecoPower in an email dated August 26, 2013 from Jay Godfrey of AEP that Kentucky Power would not discuss any rate increase above the MOU price of [redacted]/mwh:

"[redacted]

[redacted]

[56] KIUC Cross Ex. 7, p. 7.

[redacted]"[57]

Kentucky Power's tough stance that it would not entertain any talk of price increases evidently wilted and Kentucky Power eventually agreed to ecoPower's proposed [redacted] increase and then later agreed to another [redacted]/mwh increase on top of that. The final first year price agreed to by Kentucky Power that is now before the Commission for consideration is [redacted]/mwh. If Kentucky Power believed that it had a pressing need for renewable capacity and energy, and again Kentucky Power concedes that it does not, it should have stepped away from the negotiations with ecoPower when ecoPower sought to modify the binding terms of the MOU on August 19, 2011, and conducted an RFP for renewable capacity and energy. An RFP at that point in time would have provided Kentucky Power, and eventually the Commission, a true measure of whether the ecoPower price was "*fair, just and reasonable.*" But Kentucky Power failed to take this obvious step and instead capitulated completely to ecoPower without ever seeking a better deal from other suppliers.

Kentucky Power's rationale for agreeing to this dramatic price increase is not satisfactory. In its response to KIUC 2-2, Kentucky Power stated that the contract price increased because, with the passage of time, the project no longer qualified for Section 1603 — 30% cash grants or for certain accelerated tax depreciation benefits that had been assumed in the lower original price, and that the developer's estimated operating expenses increased.[58] This stated reason undermines any potential premise that the project needed to be pursued and approved outside of an RFP because it has cost-saving benefits that are about to disappear. Quite to the contrary, the fact that the cash grants and accelerated tax depreciation benefits were no longer available takes away the "*pressing time constraint*" aspect (and the associated low contract price) and strongly argues against approving this transaction without vetting it through a

[57] KIUC Cross Ex. 7, p. 9.

[58] Add cite to Staff DR.

competitive solicitation.[59] An RFP would have given the Commission critical information for judging whether or not the ecoPower contract was reasonable and/or whether other more cost-effective options were available.

Additionally, the loss of the Section 1603 grant would not explain the drastic price increase because ecoPower still had production tax credits ("PTCs") available that would not have been available if they had obtained the 1603 grants. The ecoPower facility could take advantage of either the Section 1603 grant or the PTCs, but not both, and the PTCs are of roughly equal value to the Section 1603 grants. The PTCs are available to developers of open-loop biomass projects (such as ecoPower's proposed facility) that are under construction by the end of 2013. That is the current deadline, and missing it may render a developer ineligible to capitalize on the benefits of the PTCs. However, it is worth noting that the PTC tax provisions have been in existence since the 1992 Energy Policy Act, have expired or been due to expire several times over the last two decades, and have been extended each time. Whether Congress will do that again is anyone's guess. Barring Congressional action, ecoPower must commence construction before the end of this year to be eligible for the PTCs. However, it appears that ecoPower has already commenced construction. In response to the KPSC's data request 1-8, the Company stated that project construction was already underway in that construction work for the Chipper Building began on April 22, 2013. Thus, ecoPower may already be in a position to qualify for the PTCs. Nevertheless,

[redacted]

Finally, how much profit the ecoPower developers may or may not make is irrelevant. The statutory "*fair, just and reasonable*" standard applies from the perspective of ratepayers. ecoPower is not regulated by this Commission.

[59] Direct Testimony of Alan Taylor, p. 10.

f. The Evidence Shows That There Are Likely Other Renewable Energy Sources That Are Significantly Cheaper Than The Proposed REPA.

Kentucky Power's failure to conduct an RFP, or at the very least provide some economic analysis that compares the price of the proposed REPA to other available sources of power, prevents the Commission from determining whether the proposed REPA is the least-cost source of power, or at least the least-cost source of renewable power. Kentucky Power has attempted to overcome this lack of evidence in support of its proposal by stating that renewable electricity is always more expensive than traditional fuels such as coal and gas, inferring that if Kentucky Power is to add renewables to its portfolio they are stuck with extremely expensive options such as the ecoPower REPA. During cross examination, AEP witness Greg Pauley stated:

> "*We all understand renewable is more expensive, and I don't think there's anybody in this room that doesn't reflect upon the fact that renewable is more expensive, but the opportunity to grab hold of that and move my portfolio in that direction I thought was too good to pass up.*"[60]

Renewables may be more expensive than traditional generation in some or even most cases, but without conducting an RFP there is no way that Kentucky Power can maintain that the ecoPower REPA is the least-cost available renewable option. In fact, there is evidence that RFPs in nearby states have resulted in renewable contracts that are not only cheaper than the proposed ecoPower REPA, but are also less than the avoided cost of traditional "*brown*" power.

For example, on February 25, 2013, Kentucky Power's sister AEP company, I&M, issued an RFP for 200 MW of wind energy from sources located in either Indiana or Michigan. On June 5, 2013, after reviewing bids submitted in response to this solicitation, I&M executed a REPA with Headwaters Wind Farm, LLC to supply 200 MW of power to I&M over a 20 year period. Although most of the pricing information related to this REPA is subject to confidentiality agreements and is not available to the KPSC, I&M submitted public testimony of witness Mohamed M. Abu-Karam, Engineer-Production

[60] Transcript Volume 1, p. 20.

Resource Modeling for AEP Service Corporation. Mr. Abu-Karam testified that the Headwaters REPA provides power that is cheaper than the avoided costs of running its traditional "*brown*" units:

> "*On a cost per kWh basis..., the estimated incremental net cost through to the Company's customers for an annual supply of renewable wind energy is estimated to range from a net benefit of 0.003 cents per kWh to a net benefit of 0.056 cents per kWh. The average cost... to the Company's customers over the 2015 – 2034 time frame is projected to be a net benefit of 0.042 cents per kWh. Thus, the Headwaters Wind Farm Renewable Energy Purchase Agreement (REPA) is expected to result in a cost savings to I&M's customers.*"[61]

This I&M Wind contract does not appear to be an anomaly. Mr. Taylor testified that he has seen many proposed renewable projects in recent years that could generate renewable energy and RECs at prices that are less than the forecasted prices for "*brown*" power.[62] KIUC is not opposed to Kentucky Power adding renewables to its portfolio, but they should not be grossly over-priced renewables that are the result of no-bid negotiations between only one supplier. If Kentucky Power can demonstrate that there is a need for capacity and energy, it should conduct a solicitation and present the Commission with the least-cost renewable power like its sister-AEP affiliate I&M did in Michigan.

[61] KIUC Cross Ex. 6 containing the Direct Testimony of Mohamed M. Abu-Karam in Michigan Public Service Commission, Case No. U-17375, pp 3-4.

[62] Direct Testimony of Alan Taylor p. 16.

III. CONCLUSION

Kentucky Power has not met its burden under KRS 278.271, of proving that the "*full costs*" of the ecoPower contract over its "*full term*" are "*fair, just and reasonable.*" The evidence shows that the proposed REPA is not needed and is not the least-cost source of capacity and energy.

We understand the concern that Kentucky is overly reliant on coal generation and that the state's generation supply portfolio should begin to be diversified with renewable resources. But not this project at this price. The cost to consumers and to the economy is just too high.

KIUC respectfully requests that the Commission reject the Application of Kentucky Power for approval of the proposed ecoPower REPA.

Respectfully submitted,

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September 23, 2013