

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF KENTUCKY POWER)	
COMPANY FOR APPROVAL OF SPARE)	CASE NO. 2007-00023
TRANSFORMER SHARING AGREEMENT)	
AND TRANSACTIONS AGREEMENT)	

O R D E R

On January 17, 2007, Kentucky Power Company ("Kentucky Power") filed a petition with the Commission seeking an Order pursuant to 807 KAR 5:001, Section 8, and KRS 278.218 to approve its participation in the Edison Electric Institute ("EEI") Spare Transformer Sharing Agreement ("Agreement") and further approving all transformer sharing transactions Kentucky Power may undertake pursuant to the Agreement. Under the terms of the Agreement, participating utilities may be called upon to provide transformers to another participating utility if an act of terrorism results in the destruction or long-term disabling of that utility's electric transmission substations.

On March 15, 2006, American Electric Power ("AEP"), on behalf of Kentucky Power and the other AEP operating companies, entered into the Agreement with other utilities across the United States. On September 21, 2006, the Federal Energy Regulatory Commission ("FERC") approved an application filed before it by EEI on behalf of FERC-jurisdictional signatories to the Agreement, including AEP.

The Agreement establishes protocols that are intended to guarantee access to spare transformers in the event that Kentucky Power or another utility that has entered

into the Agreement suffers the destruction or long-term disabling of one or more electric transmission substations in connection with a "Triggering Event," which is defined as:

An act or coordinated acts of deliberate, documented terrorism, as defined in the Homeland Security Act of 2002, 6 U.S.C. § 101(15), as the same may be amended from time to time, resulting in (1) the destruction or long-term disabling of one or more electric transmission substations, and (2) the declaration of a state of emergency by the President of the United States pursuant to the National Emergencies Act, 50 U.S.C. § 1601 et seq., as the same may be amended from time to time.¹

AEP anticipates that its commitment under the provisions of the Agreement will be two 345-138 kV transformers, which would come from its currently existing stock of six spare transformers owned by various AEP operating companies. Kentucky Power does not currently own any spare 345-138 kV transformers but stated that it may acquire a spare transformer at some future time without regard to whether or not it was a party to the Agreement.

AEP indicated that it has joined the Agreement only as to the 345-138 kV class of transformers and that Kentucky Power and AEP believe that limiting participation to this class of transformers permits the companies to maximize the benefits to be received under the Agreement. Kentucky Power expects that the cost of a 345-138 kV transformer to be acquired or sold will range from approximately \$1.6 million to \$1.9 million, and as a result the original book value is expected to exceed \$1 million.

¹ Verified Application of Kentucky Power, Exhibit 1, Agreement, Article I, Section 1.1, Definitions (January 17, 2007).

FINDINGS AND CONCLUSIONS

This Commission is an agency of the Commonwealth of Kentucky vested by statute with the authority to fix rates, establish and alter service regulations, and otherwise regulate such practices of jurisdictional utilities, including electric utilities, as provided by statute.² Subject to certain exceptions not relevant herein, KRS 278.218(1) provides that “no person shall acquire or transfer ownership of or control, or the right to control, any assets that are owned by a utility . . . without prior approval of the commission, if the assets have an original book value of one million dollars (\$1,000,000) or more” KRS 278.218(2) provides that “[t]he commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public interest.” (Emphasis added).

Kentucky Power is an electric utility subject to the jurisdiction of the Commission. The Commission finds that the proposed transfers, replacements, acquisitions, and related accounting treatment of and for spare transformers requested by Kentucky Power are for a proper purpose and are consistent with the public interest and should be approved.

IT IS THEREFORE ORDERED that:

1. Kentucky Power is authorized to transfer or acquire spare transformers and perform such other functions as required pursuant to the terms of the Agreement.

² KRS 278.040; Public Service Comm’n v. Southgate, Highland Heights, 268 S.W.2d 19 (Ky. 1954).

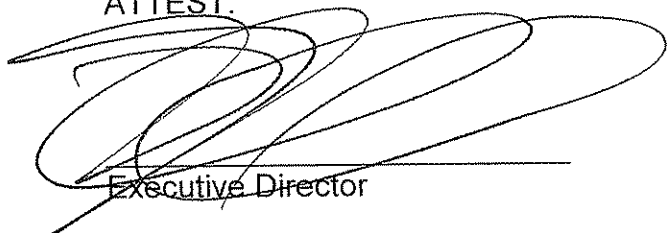
2. Kentucky Power shall provide final transfer or acquisition details initially within 30 days of each transaction occurring under the terms of the Agreement and shall supplement such initial reporting with subsequent final documents.

3. This Order in no way affects the authority of the Commission over rates, services, or any matters whatsoever subject to the Commission's jurisdiction that may come before it, nor shall anything herein be construed as acquiescence in any estimate of costs or any valuation of property claimed or asserted. The Commission retains jurisdiction over this subject matter and Kentucky Power to effectuate the provisions of this Order.

Done at Frankfort, Kentucky, this 7th day of February, 2007.

By the Commission

ATTEST:



Executive Director