

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

Application of Kentucky Power )  
Company For An Order Approving )  
A Pilot Real-Time Pricing Program For ) P.S.C. Case No. 2007-00166  
Large Commercial And )  
Industrial Customers )

Responses of Kentucky Power Company  
To Comments of Attorney General and Request  
For An Informal Conference

Kentucky Power Company for its Response to the Comments of the Attorney  
General to the Kentucky Power's Pilot Real-Time Pricing Program states:

Introduction and Request For Informal Conference

Kentucky Power addresses the Attorney General's comments below.

Nevertheless, because this format does not allow Staff, the Attorney General or KIUC to pose follow-up questions, an informal conference may be of benefit to the parties. In addition, an informal conference will allow Kentucky Power to address any misunderstandings concerning the operation of its pilot program.

1. Recovery of Program Costs.

The Attorney General purports to reserve its right to challenge Kentucky Power's right to recover the costs associated with the program.

Response: The Attorney General's basis for any such future challenge is far from clear in light of the fact Kentucky Power is implementing this program at the direction of the Commission, which in turn is acting in response to federal law. In any

event, as set out in its responses to the data requests in this proceeding, the costs are recoverable and should be assigned to the customer classifications that benefit from it.

2. The Claimed Need for Additional Customer Education Programs.

The Attorney General “note[d] with disappointment” the Company’s intention not to “educate or inform participants on ways to reduce their energy consumption or shift their load .....”<sup>1</sup>

Response: As noted in its Response to Staff Data Request No. 2(d), First Set, the Company will publicize the program to all eligible customers. Further, Kentucky Power customer representatives will meet and work with any interested eligible customer to explain the program and to offer assistance to customers in evaluating any modifications required for participation. Thus, detailed information will be provided on a customer-specific basis. Because the load and energy requirements of large industrial and commercial customers tend to be unique to each customer, a generalized presentation, as might work with a more homogeneous class such as residential customers, will not be particularly useful to eligible industrial and commercial customers. In any event, the determination of whether to participate can only be made by the customer.

The broader educational program suggested by the Attorney General, particularly any program directed to non-participants, seems inappropriate for a pilot program and beyond the goals set out in the Commission’s Order.

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<sup>1</sup> Attorney General’s Comments at 3.

3. The Claimed Need for Additional Information on Program Costs.

The Attorney General objects to Kentucky Power recovering any of the costs associated with program because the Company has not provided detailed costs on the yet to be approved program.

Response: In its Response to Staff Data Request No. 4(c), Second Set, Kentucky Power offered to work with Staff to develop an administrative fee for the pilot program based on the expected costs of the program as finally approved. The Attorney General is encouraged to be a part of any such effort.

Kentucky Power notes that the cost of modifying the Customer Communication System (CCS), which will represent the majority of the program costs, could be approximately \$100,000. That amount is nearly twice the \$54,000 in fees to be paid if the program maximum of ten participants enroll.<sup>2</sup> Thus, the Attorney General's concern the administrative fee is unrelated to any costs of the program or that the Company has not met its burden of proving the charge is reasonable<sup>3</sup> seems ill-founded.

Although the Attorney General objects to Kentucky Power's proposed true-up of costs and fee revenue it does not provide any basis for its objection other than, perhaps, its desire for specific program cost information for a program whose final form has not yet been determined. Kentucky Power hopes that its proposal to establish a final program fee once the program is approved meets that concern. Any other objection, particularly in light of the Attorney General's concern expressed elsewhere that there may be an over-recovery by Kentucky Power, to a mechanism to match costs to cost-causers should not carry any weight.

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<sup>2</sup> See, Response to Staff Data Request No. 4(c), Second Set.

<sup>3</sup> Attorney General's Comments at 3.

4. The Need To Prevent The Claimed Possibility of Over-Recovery.

The Attorney General raises the possibility that Kentucky Power will receive an over-recovery by purchasing power from the PJM market to supply to customers' designated real-time pricing loads and energy and sell into the off-system market Kentucky Power generation that otherwise would (under the Attorney General's understanding) be used to supply the load. As a result, the Attorney General urges the Commission to net program costs against off-system sales.

Response. The Attorney General's concern regarding over-recovery by Kentucky Power in this comment is at odds with its observation in the succeeding comment that "the Attorney General believes the program is revenue neutral to the Company...."<sup>4</sup>

In any event, and as an initial matter, it is likely to prove difficult to link any particular off-system sale to power and energy that is made subject to real-time pricing. More fundamentally, the Company has in place a system sales tracker that flows back to the customer system sales profits. That is, there already is in place a mechanism whereby the customer participates in off-system sales. The Attorney General's proposal thus will allow for a double recovery by ratepayers.

5. Decision Not To Use Customer Baseline Load Approach.

The Attorney General questions the Company's decision not to use the customer baseline approach proposed by other utilities subject to the Commission's order. In addition, the Attorney General also is concerned that "as proposed, the load designated by participants as subject to the tariff is fixed so that reductions in overall usage would

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<sup>4</sup> Attorney General's Comments at 7.

only reduce the charges applicable under the standard tariff rates and the designated load would still be subject to the significantly higher PJM rates.”<sup>5</sup>

Response. As the Attorney General concedes, the Commission did not direct the Company’s to implement a particular type of program. By allowing the companies flexibility in designing programs the Commission freed the companies to use their company-specific experience to develop programs that provide their customers with appropriate pricing signals while avoiding the allocation of additional costs to other customers (as might happen if customers were able to “game” the system under the customer base line approach.)<sup>6</sup> Kentucky Power intends to work closely with participating customers but that would not ensure costs would not be shifted to other customers under the customer base line approach advocated by the Attorney General. In addition, the Attorney General’s one-size-fits-all approach seems contrary to the presumptive basis for the Commission’s decision to proceed first with pilot programs.<sup>7</sup> Indeed, the deployment of both customer base line programs and Kentucky Power’s model will provide the Commission with additional information it otherwise would lack under the Attorney General’s proposal.

The Attorney General’s concern that reductions in load may affect only load that is subject to the existing (non-real-time pricing) tariff seemingly is founded upon a

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<sup>5</sup> *Id.*

<sup>6</sup> See, Response to Attorney General Data Request No. 2(c) (Second Set) for additional information on possible abuses of the Customer Baseline approach. In addition, if an informal conference is scheduled, Kentucky Power can further explain its position with respect to the Customer Baseline approach and answer any other questions from the Staff or parties.

<sup>7</sup> See, e.g., Order, *In the Matter of: Considerations of the Requirements of the Federal Energy Policy Act of 2005 Regarding Time-Based Metering, Demand Response, and Interconnection Service* at 13, P.S.C. Case No. 2006-00045 (Ky. P.S.C. December 21, 2006) (“To gain information and attempt to ascertain the viability and effectiveness of real-time pricing for larger customers, the Commission will require that pilot programs be developed and offered to such customers.”)

misunderstanding of the manner in which the program will work. The fixed level of load designated by the customer is applicable to the standard tariff rates and any amount used above the designated level is priced at the PJM rates. Reductions in load that occur above the designated level will be priced at the PJM rates. Any usage up to the designated level will be priced at standard tariff rates and will cost the customer no more than before. It is only the usage above the designated level that determines whether the customer will benefit or not. For high load factor customers, it may not be beneficial to participate. They are using power evenly throughout the time period and thus are less likely to be able to shift their usage pattern to put more usage off-peak.

Lower load factor customers, on the other hand, may benefit if they can modify their usage pattern to reduce their peak load or move load to off-peak time periods which is the intent of the program. They also would generally have more of an opportunity to change their usage patterns. Participants ability to react to real-time prices and obtain benefits from the pilot program is enhanced by the fact that unlike other utilities subject to the Commission's Order, Kentucky Power, through its parent American Electric Power Company, is a member of PJM. As a result the derivation of real-time prices charged to customers is transparent.

Finally, Public Service Company of Oklahoma incorporated the customer baseline approach in its real-time pricing tariff because it did not have available the extensive market and pricing provided by PJM. Where such a market is available, Kentucky Power believes its approach better serves its customers.

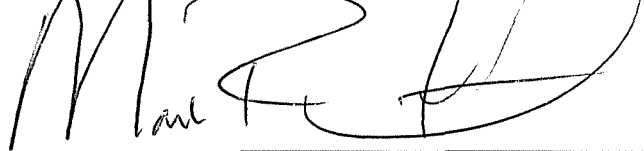
6. The Attorney General's Request That Additional Information Be Reported.

With two caveats, Kentucky Power has no objection to the Attorney General's request that additional information concerning the program results be made part of the record and distributed to all parties. First, the obligation to provide the identified additional information should be limited to information known to Kentucky Power. For example, it is not reasonable to require Kentucky Power to provide a customer's reasons for discontinuing participation if the customer does not share that information with the Company. Second, Kentucky Power should be permitted to provide any usage information on an aggregated basis. If there is only one participant, Kentucky Power anticipates seeking confidential treatment for any single customer-specific usage information.

Conclusion

Kentucky Power Company respectfully requests approval of its Pilot Real-Time Pricing Program tariff as filed.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', is written over a horizontal line. The signature is stylized and somewhat cursive.

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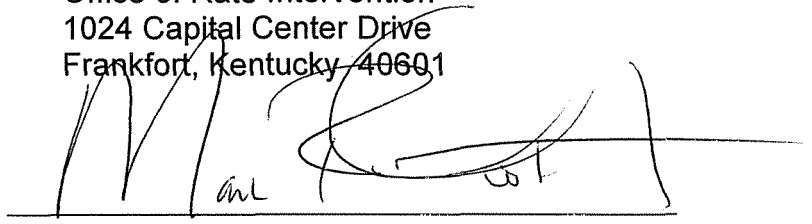
COUNSEL FOR:  
KENTUCKY POWER COMPANY

Certificate of Service

I hereby certify that a copy of the foregoing Response to the Attorney General's Comments was served by United States First Class Mail, postage prepaid, on this 23<sup>rd</sup> day of July, 2007 upon:

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A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', is written over a horizontal line. The signature is stylized and includes some initials or marks below the main line.

Mark R. Overstreet

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