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JUN 28 2007

**PUBLIC SERVICE
COMMISSION**

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June 28, 2007

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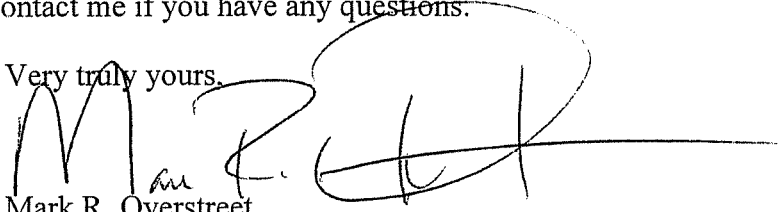
Beth O' Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601-8294

RE: P.S.C. Case No. 2007-00166

Dear Ms. O'Donnell

Enclosed please find and accept for filing Kentucky Power Company's Responses to the Staff and the Attorney General' Second Set of Data Requests. By copy of this letter I am serving the Attorney General and counsel for the Kentucky Industrial Utility Customers, Inc. with copies of the Responses. Please do not hesitate to contact me if you have any questions.

Very truly yours,


Mark R. Overstreet

cc: Dennis G. Howard II
Michael L. Kurtz

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JUN 28 2007

**PUBLIC SERVICE
COMMISSION**

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

**APPLICATION OF KENTUCKY POWER COMPANY)
FOR AN ORDER APPROVING A PILOT REAL-TIME)
PRICING PROGRAM FOR LARGE COMMERCIAL) CASE NO. 2007-00166
AND INDUSTRIAL CUSTOMERS)**

KENTUCKY POWER COMPANY

**RESPONSES TO ATTORNEY GENERAL'S SECOND SET
OF DATA REQUESTS**

June 28, 2007

Kentucky Power Company

REQUEST

Please reference the Foust testimony, at page 5, at line 8.

- a. Please provide a detailed explanation, including all relevant determinants or decision making reasons, for basing real-time rates under this pilot using PJM RTO market prices.
- b. Other than the fact that such prices are "readily available," are there any other reasons the company chose to use the PJM RTO prices for the proposed tariff rather than prices based upon the company's actual cost of generation?

RESPONSE

- a. AEP (as well as other generators) offers available generation into the PJM market and AEP purchases its entire energy requirements for its retail customers from the PJM market. It is the only public/verifiable place to find real-time prices that are applicable to the region that AEP and Kentucky Power serves for the amount needed by the customer.
- b. The cost used to set Kentucky Power's rates is determined after the fact by allocating AEP's lowest variable cost generation that was used by PJM to AEP's internal customers. The system cost is then allocated to Kentucky Power in accordance with the AEP System Interconnection Agreement. Kentucky Power's hourly real-time allocated generation cost would not be known until after the fact. In addition, since AEP's generation is bought and sold in a competitive market, its cost structure is confidential.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Please reference the Company's Response to the Attorney General's First Set of Data Requests, item 3.

- a. As the company acknowledges that the PJM RTO prices are "much higher" than Kentucky's tariff prices over 90% of the time, and under the proposed pilot the participant would voluntarily designate what portion of their load is subject to these higher prices, does the company realistically expect any customer to participate in the program given that, under the pilot as proposed by the company, it seems that the customer would be merely volunteering to pay higher tariff prices with little or no corresponding benefit?
- b. Please provide a detailed explanation of how the company believes a participant would benefit under the pilot program as proposed by the company.
- c. Please provide a detailed explanation, including specific examples, of how the company believes the customer baseline approach is subject to manipulation and by whom?
- d. Given the company's statement that PJM RTO prices are "much higher" than Kentucky's tariff prices over 90% of the time, does the company expect to over-recover from program participants based upon its actual costs of generation? If so, how does the company propose to allocate such over-recovered funds?

RESPONSE

- a. The hourly LMP (energy) price is much higher than Kentucky Power's energy charge. However the demand charge for Kentucky Power is much higher than the capacity charge in the PJM market. The customer's ability to save money is therefore a trade-off between demand and energy prices.
- b. If the customer's load pattern contains demand spikes, i.e. high demands with little associated usage, the customer may benefit by changing from the tariff rate which has a relatively high demand charge and lower energy charges and switching to market pricing with a relatively lower capacity charge and higher energy prices. Further, as the customer controls its demand in response to hourly market prices they could save even more money.

c. No. Establishment of a customer baseline is not a matter of solving a mathematical equation but instead is always subject to negotiation. It raises a significant number of questions, such as: What period is used to set the baseline - the last year, the last month, the last week? Is the customer increasing or decreasing its load over time? Does the historical period represent future operations? If not how do you adjust it? Does the facility normally shut down for extended periods? The Company and the customer can look at the same historical information and reach markedly different conclusions about what the baseline is. Removing the customer baseline as a basis to determine "normal" operations makes these questions irrelevant and eliminates significant potential disputes, which may have resulted in limiting customer participation.

d. No. The Company's generation and its cost will be used to supply the energy it commits to provide to the customer at standard tariff prices. The amount of energy, which the customer purchases at market prices, will be supplied from the energy purchased on the market by Kentucky Power. Therefore the Company will collect its costs.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Please state whether any AEP affiliate company offers a Real-Time pricing tariff or pilot program utilizing the Customer Baseline (CBL) approach and for any programs listed, provide:

- a. A summary of each program or pilot, which should include the design of same and how long such program or pilot has been implemented;
- b. The name of the jurisdiction approving such program, along with a copy of the Order (or equivalent document) approving such program;
- c. A detailed explanation as to why the CBL approach was not proposed for Kentucky.

RESPONSE

AEP's Public Service Company of Oklahoma affiliate offers a program with a CBL.

- a. The response to Attorney General's question number 3 of the first set includes a link to the website which includes the tariff and when it was authorized.
- b. The Oklahoma jurisdiction approved the offering in order number 504841 in Docket No. PUD 200300076. Below is a link to the Order.

<http://imaging.occeweb.com/AP/Orders/OCC1207835.tif>

- c. See the response to Attorney General's question 2C of the second set.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Please reference the Company's Response to the Attorney General's First Set of Data Requests, item 6.

- a. Does the company feel it is reasonable for a pilot program to be approved by the commission even though the company has not prepared any estimates of the anticipated program administrative costs? If so, why?
- b. Since the company proposes to limit the number of participants to only ten (10), is it possible to estimate the pilot program costs based upon that number of participants? If so, why was such an estimate not prepared and submitted with the application?
- c. Since the company has stated that it has certain costs associated with the program that are independent of the number of participants, why were those costs not submitted as part of the application?

RESPONSE

- a. Yes. The Commission ordered a real-time pilot program be developed because it determined the program would be beneficial. Any cost of a program ordered by the Commission should be recoverable. As proposed by the Company the cost paid by the participating customer is in line with other companies' programs. If the cost turns out to be different than the amount collected by the Company, the difference will be sought to be recovered or refunded in a future proceeding.
- b. In preparing its application, the Company believed there was too much uncertainty as to the ultimate form(s) of the pilot that the Commission would ultimately approve to prepare an estimate. With participation limited to 10 qualified participants during the pilot program, the Company elected to manually process the information for the customer bill. Further, the cost of modifications to the Customer Communication System will vary depending upon the ultimate form of the pilot. Given the uncertainties, the Company was not comfortable preparing a total cost estimate. Also, please see the response to the Staff's second set of requests, No. 4c.

c. See the response to part (b). While certain costs, such as processing the real-time information from PJM, are independent of the number of participants, these costs only represent a small portion of the total cost of providing the RTP option to customers.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

In its response to the Commission Staff's First Set of Data Requests, item 5, the company stated that the proposed administration fee "was set based upon a review of the program charges for other companies "RTP programs." Further, in its response to the Attorney General's First Set of Data Requests, item 6, the company states, "the proposed administration fee was not set to recover any certain costs." Given the forgoing statements, is it the company's position that the proposed program charge is reasonable? If so, why?

RESPONSE

Yes. The proposed program charge is reasonable for the participating customer since it is in line with other Companies' program charges. Also see the response to Staff #4 of the second set.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Please reference the Company's response to the Attorney General's First Set of Data Requests, item 6(E).

- a. Please provide a detailed explanation of the company's assertion that over-recovery from participants will not occur given that the proposed tariffs are not based upon the company's costs of generation but rather the PJM RTO tariffs, which the company acknowledges are "much higher" than Kentucky's tariff prices "over 90% of the time."
- b. Please provide a detailed explanation of exactly what costs the company will incur by utilizing the PJM RTO rates rather than its own costs of generation.

RESPONSE

- a. See the response to question 2 D of the Attorney General's second set of data requests.
- b. AEP/Kentucky Power treats the portion of the load designated by the customer as subject to real-time pricing as if the customer is purchasing its requirement directly from the market. AEP will separately identify the real-time load and will be purchasing from the market the requirements for that load. The costs AEP incurs to do that will be passed on to the customer. Those costs are detailed in the RTP tariff and include demand, energy, ancillary and transmission charges. The distribution charge included is derived from the charges currently included in the Company's standard tariffs and the program charge is for additional administrative charges incurred by the Company.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Please reference the Company's Response to the Attorney General's First Set of Data Request, item 5. Please define the term "shortly after" in the context of exactly when the company proposes provide day-ahead pricing to participants since such data will be received by the company at 4 pm.

RESPONSE

The Company will post the hourly LMPs to its Customer Communication System within an hour after receiving them from PJM.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Is the proposed program designed to be revenue neutral to the company? If so, exactly how is such revenue neutrality achieved? If not, please provide a detailed estimate of the amount of over or under recovery the company expects to receive.

RESPONSE

Yes. The RTP program is designed to be revenue neutral to the Company because the Company bills the customers under this tariff the actual costs incurred to purchase market power.

WITNESS: Larry C Foust

Kentucky Power Company

REQUEST

Is the proposed program designed to be cost neutral to participants whose consumption patterns (load profile) do not change but designate a portion of load subject to the tariff? If so, please provide a detailed example of exactly how, including the portion of load designated by the hypothetical participant. In addition, please describe the corresponding benefit to the participant in the example.

RESPONSE

The program is not bill neutral to participants who designate a portion of their current load subject to real time pricing. It may be beneficial or detrimental to them depending on the load and usage characteristics since market capacity charges are currently less than the Company's demand charge and market energy prices are typically greater than the Company's energy charge. Once on the program, it will be more beneficial for customers to move usage to less costly hours since the market energy rates are typically higher than the Company's. In addition customers may be able to gain from added operational flexibility.

WITNESS: Larry C Foust