

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

AN INVESTIGATION OF THE)
ENERGY AND REGULATORY ISSUES)
IN SECTION 50 OF KENTUCKY'S 2007) CASE NO. 2007-00477
2007 ENERGY ACT)

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PETITION FOR CONFIDENTIAL TREATMENT

Kentucky Power Company ("Kentucky Power") moves the Commission pursuant to 807 KAR 5:001, Section 7, for an Order granting confidential treatment to a portion of Kentucky Power's Response to Data Request No. 3. The requests were set forth in Appendix B of the Commission's Order dated November 20, 2007.

Pursuant to 807 KAR 5:001, an original of those parts of the responses for which confidential treatment is sought is filed as part of Kentucky Power's original filing in response to this data request. In addition, six redacted copies of the subject Response are filed with Petition.

A. The Requests And The Statutory Standard.

Data Request No. 3 directs Kentucky Power to:

Provide copies of any internal reports or utility-commissioned studies on renewable capabilities in Kentucky, including capacity for development of integrated combined cycle facilities.

Included as part of the responsive materials are: (a) proprietary and confidential projections of the future prices of emission allowances; (b) proprietary and confidential

capacity factor projections; and (c) portions of a study¹ prepared by Sargent & Lundy, LLC evaluating locations for an Integrated Gasification Combined Cycle ("IGCC") plant.

Kentucky Power does not object to providing to the Commission those portions of the information sought in Data Request 3 for which confidential treatment is sought. As a result of the competitive nature of the markets, however, the public disclosure of such information will place Kentucky Power and, with respect to the IGCC study, Sargent Lundy, at a competitive disadvantage. As a result, Kentucky Power is seeking confidential treatment for such information.

KRS 61.878(1)(c)(1) excludes from the Open Records Act:

"Records confidentially disclosed to an agency, generally recognized as confidential or proprietary, which if openly disclosed would present an unfair commercial advantage to competitors of the entity that disclosed the records, and which are compiled and maintained . . . in conjunction with the regulation of commercial enterprise . . ."

This exception applies to those portions of Kentucky Power's response to Data Request 3 for which confidential treatment is sought.

B. Application of the Standard to the Information to Be Protected.

1. Sargent & Lundy, LLC *Eastern States Site Selection Study*, dated November 11, 2004.

In response to Data Request No. 3, Kentucky Power is providing those portions of a Sargent & Lundy study evaluating potential sites for the development of an IGCC power plant that relate to Kentucky or that are necessary to understand the Kentucky-related sections. As set out in more detail in the Affidavit of Michael D. Dancison, attached as Exhibit 1, the list of sites contained in the report (including those in

¹ Although the Sargent & Lundy Study addressed sites in the remaining AEP Eastern States, the data request was limited, as is Kentucky Power's response, to "studies on renewable capabilities in Kentucky...."

Kentucky that are being provided) is not in the public domain. Disclosure of the sites and their relative scoring is likely to put Kentucky Power at a competitive disadvantage in acquiring rights with respect to the sites and disposing of sites with low rankings. Further, the methodology used by Sargent & Lundy has commercial and proprietary value to it and could be used by its competitors for the purpose of competing with Sargent & Lundy. Its disclosure would result in competitive harm to Sargent & Lundy.

All of the material contained in the Sargent & Lundy report for which confidential treatment is sought is treated as confidential and proprietary by AEP, Kentucky Power and Sargent & Lundy. Dissemination of the information for which confidential treatment is being requested is restricted by Kentucky Power, AEP and Sargent & Lundy, and all three take all reasonable measures to prevent its disclosure to the public as well as to persons within the respective companies who do not have a need for the information.

The Sargent & Lundy study, including the portions for which confidential treatment is sought in this proceeding was accorded confidential treatment by the Public Utilities Commission of Ohio in Case No. 05-376-EL-UNC by Order dated April 10, 2006. By Entry dated October 11, 2007, the Attorney Examiner of the Ohio Commission ordered the Sargent & Lundy report be accorded confidential treatment for an additional 18 months (or until approximately April, 2009). A copy of the Order and Entry are attached as Exhibits 2 and 3.

2. Information Regarding Projected Emission Allowance Prices and Projected Capacity Factors.

In response to Data Request No. 3, Kentucky Power is providing information concerning Kentucky Power's projections of the values of sulfur dioxide, carbon dioxide and nitrogen oxide emission allowances for the period 2010 through 2049. Projected

capacity factors are provided for a like period. The information is confidential and if openly disclosed in this proceeding would result in an unfair competitive disadvantage to Kentucky Power in its purchase and sale of such allowances.

(a) Projected Prices of Emission Allowances.

Emission allowance purchases and sales by AEP on behalf of Kentucky Power depend on many variables, including the unit output performance of affiliate members' facilities, as well as the FERC approved Interim Allowances Agreement. The market in which AEP must purchase and sell allowances comprises participants other than utilities, whose sole purpose is financial gain on speculatively traded positions. Major participants in the market for sulfur dioxide emission allowances include utilities such as Duke, TXU, Constellation, Mirant, DTE, Dominion, PP&L; banks such as JP Morgan, Morgan Stanley, Credit Suisse; hedge funds, including Saracen, Centaurus, Alpha, Louis Dreyfus; and energy companies such as BP Energy and Koch. Major participants in the market for nitrogen oxide emission allowances include Duke Energy, Constellation, DTE, Dominion and Koch.

The markets for sulfur dioxide and nitrogen oxide emission allowances are thinly traded and illiquid. Although there is formalized OTC trading with and without brokers, no particular exchange handles these transactions. A typical trading day produces from eight (8) to ten (10) sulfur dioxide trades for a total of 8,000 to 10,000 allowances. The nitrogen oxide market also is very thinly traded. Nitrogen oxide allowances are more regional in nature and require more detailed knowledge of geographical constraints than sulfur dioxide allowances, thus exacerbating the impact of forecasted

information being made publicly available. There is no typical nitrogen oxide trading day. When trades are made, it is usually for 50 to 100 allowances.

The market for these emission allowances also is extremely volatile. The price of an sulfur dioxide allowance traded in a relatively narrow range prior to 2004, with prices between \$100 and \$250/allowance. Since mid-2004, prices have been very volatile, and prices as high as \$1,600/ton have been observed. A sulfur dioxide allowance price of \$1,600/ton equates to adding approximately \$10/MWh to the variable cost of operating an AEP unit. Due to the thinly traded market, sulfur dioxide prices can move significantly on small volumes. For example, in a two day period in mid-October 2006, while less than 18,000 tons were sold, the market moved \$55/ton or about 10% of the value.

Nitrogen oxide allowance pricing has also been volatile. In mid-October 2006, the same timeframe as used in connection with sulfur dioxide, nitrogen oxide prices have shown volatility of 39% over a ninety-day period, 50% over a thirty-day period and 105% over a ten-day period.

Knowledge of projected prices for future purchases and sales by a large utility such as AEP, coupled with publicly available information concerning AEP's emission allowance balances, will have a direct detrimental impact on Kentucky Power and the cost of serving its customers. If other market participants gain access to such information they be able determine the price ranges AEP anticipates buying and selling the allowances.

The limited amount of trading activity, coupled with the knowledge of a major participant's projected prices, provides ample opportunity for astute market participants

to extract gains at the expense of a participant like Kentucky Power (AEP). For example, and for any volume of transactions presumed, a drop in the allowance sales price from \$700 per allowance to \$500 per allowance requires the sale of an additional 40% of allowances in order to maintain the same sales gain. Conversely, a purchaser such as Kentucky Power facing an increase in the price of an allowance from just \$500 to \$700 will pay an additional 40% more to obtain the same number of needed allowances. Speculative players could take positions to maximize profits based on the information garnered.

The information concerning emission allowances for which confidential treatment is sought is treated as being confidential and proprietary by AEP and Kentucky Power. Dissemination of the information for which confidential treatment is being requested is restricted by Kentucky Power and AEP and each takes all reasonable measures to prevent its disclosure to the public as well as to persons within the respective companies who do not have a need for the information.

The response also includes information from a study performed by AEP regarding the conversion of pulverized coal units to co-fired biomass units. As part of that study, the cost of carbon dioxide emission allowances was considered. The market for carbon dioxide emission allowances is even more thinly traded and illiquid than those for sulfur dioxide allowances and similar to those for the nitrogen oxide allowances. As a result, the release of AEP's forecast of the prices for carbon dioxide allowances will adversely affect AEP's ability to function in that market.

Information concerning Kentucky Power's emission allowance inventories and plans was accorded confidential treatment by this Commission by Order dated January

31, 2007, the Commission in Case No. 2006-00128² accorded confidential treatment to emission allowance information similar to that for which protection is sought here. A copy of the Order is attached hereto as Exhibit 4.

(b) Capacity Factors.

The advent of energy markets operated by Independent System Operators (ISO) or Regional Transmission Organizations (RTO) such as PJM over large transmission areas has driven traditional Investor Owned Utilities (IOU's) to compete on a regional basis with other IOU's, Independent Power Producers (IPPs) and financial market participants such as investment banks and hedge funds, in the wholesale market. The increase in competition combined with increased fuel cost volatility is bringing about an intense focus not only on cost minimization techniques, but also fuel procurement strategy, power purchase agreements, portfolio maximization strategies, and long-term generation resource planning. Competitive markets such as PJM reward generation innovation whether it be in the form of reduced heat rates, reduced Operations and Maintenance expenditures or increased operational flexibility. Failure to innovate can result in reduced opportunities to minimize cost and maximize value enhancing opportunities as PJM is managing the transmission system, and to a large extent generation assets, to achieve the lowest possible total production costs across the system footprint while maintaining reliability.

Specifically, the growth of competitive markets such as PJM has placed a premium on generating unit data. Competitive Energy Market Intelligence, especially in

² *In the Matter of: An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company for the Six-Month Billing Periods Ending December 31, 2002, December 31, 2003, December 31, 2004 and December 31, 2005, and for the Two-Year Billing Periods Ending June 30, 2003 and June 30, 2005, Case No. 2006-00128 (Ky. P.S.C. January 31, 2007).*

regard to Real-Time Generation and unit availability, has sprouted into a cottage industry. Public disclosure of per unit information such as forecasted capacity factors could adversely impact ratepayers and shareholders of AEP by providing data that may allow a competitive advantage to be obtained by a direct competitor of AEP, thereby affecting Kentucky Power's ability to minimize costs for its rate paying customers. In addition, coal producers, who can ascertain the generation output of Kentucky Power's units from this information, may use this information to raise spot market coal prices to take advantage of any shortfall in coal supplies the Company may be experiencing.

Unit availability, including capacity factor data, is especially useful for competition as savvy marketers can estimate AEP generation positions and either raise generation offers (specifically in the AEP Zone) if they believe AEP is energy short (a position that can and does occur) resulting in Kentucky Power paying higher prices to procure energy to serve retail customers. This type of data is highly valued by competing energy marketers and traders who speculate in forward energy transactions. Using forecasted unit availability data, other parties could utilize increase their forecast accuracy of the future AEP operations and utilize this intelligence to potentially influence the energy and ancillary services markets negatively for Load Serving Entities such as AEP, ultimately raising the cost to the retail customer and lowering the level of off-system sales margins.

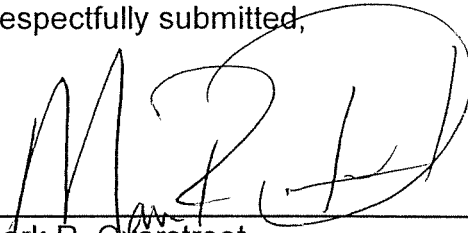
Information concerning capacity factors is treated as confidential and proprietary by AEP and Kentucky Power. Dissemination of such information is restricted by Kentucky Power and AEP each takes all reasonable measures to prevent its disclosure

to the public as well as to persons within the respective companies who do not have a need for the information.

Wherefore, Kentucky Power Company respectfully requests the Commission to enter an Order:

1. According confidential status to and withholding from public inspection the indicated parts of Kentucky Power's responses to Data Request 3; and
2. Granting Kentucky Power all further relief to which it may be entitled.

Respectfully submitted,

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

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Telephone: (502) 223-3477

COUNSEL FOR KENTUCKY POWER
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of Kentucky Power Company's Responses to Commission Staff's First Set of Data Requests was served via United States Postal Service, First Class Mail, postage prepaid, upon:

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this the 7th day of December, 2007.



Mark R. Overstreet

Exhibit 1

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter Of:

AN INVESTIGATION OF THE)	
ENERGY AND REGULATORY)	ADMINISTRATIVE
ISSUES IN SECTION 50 OF)	CASE NO. 2007-00477
KENTUCKY'S 2007 ENERGY ACT)	

AFFIDAVIT OF MICHAEL D. DANCISON

Michael D. Dancison, being first duly sworn according to law, deposes and says:

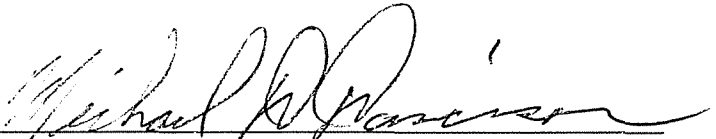
1. I am of the age of majority and competent to make this affidavit. This affidavit is based on my personal knowledge and is offered in support of Kentucky Power Company's Motion for Confidential Treatment in this proceeding.
2. I am employed by American Electric Power Service Corporation ("AEP") as the Director New Generation Development for AEP. My responsibilities include power plant technology assessments, new generation siting and project development.
3. The Sargent & Lundy, LLC "Eastern States Site Selection Study," dated November 11, 2004, (the "Report") was produced at my direction. The key AEP employees responsible for the study report directly to me.
4. The Report should remain confidential for the following reasons:
 - (1) The list of sites in the Report is not in the public domain, because the identification of all of the specific sites is strategically important to AEP concerning its future expansion plans. Knowledge of those sites by third parties has the potential to be used by competitors to

impact efforts by AEP to use those sites for power plants in the future.

- (2) Disclosure of the relative scoring of the individual sites is likely to harm AEP and other non-affiliated entities by placing AEP or those entities in a competitive disadvantage in any negotiations with third parties in securing necessary ownership or other rights to those sites. For example, AEP may need to acquire other parcels or rights of way for those sites in the future to support development of a power plant at those sites.
- (3) Disclosure of the relative scoring of the individual sites is likely to harm AEP and other non-affiliated entities by placing AEP or those entities in a competitive disadvantage in any negotiations with third parties in disposing of those sites with low rankings. For example, a potential purchaser could use the low perceived value of the site to AEP for a power plant as a reason to seek a lower price for the parcel.
- (4) AEP has maintained the Report and list of sites as confidential and has not released the study to third parties without requiring them to execute a Non-Disclosure Agreement.
- (5) Based upon my dealings with Sargent & Lundy, LLC in connection with the preparation of the Report it is my understanding the information for which Kentucky Power seeks confidential treatment is treated confidentially by Sargent & Lundy and is not released in

the public domain. The information has commercial value to Sargent & Lundy and could be used by its competitors to provide similar services. Public release of the information will result in competitive harm to Sargent & Lundy.

FURTHER AFFIANT SAYETH NAUGHT.

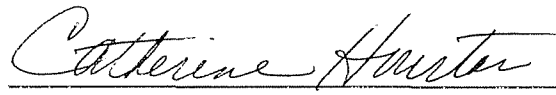

Michael D. Dancison

STATE OF OHIO)
COUNTY OF Franklin) SS

Sworn to before me and subscribed in my presence by Michael D. Dancison, this the 6th day of December, 2007.



CATHERINE HURSTON
Notary Public, State of Ohio
My Commission Expires 11 15 2009


Notary Public

My Commission Expires: _____