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JUN 06 2013

PUBLIC SERVICE
COMMISSION

Via Overnight Mail

June 5, 2013

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

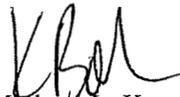
Re: Case No. 2013-00144

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies of KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC's SECOND SET OF DATA REQUESTS TO KENTUCKY POWER COMPANY for filing in the above-referenced docket.

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place this document of file.

Very Truly Yours,



Michael L. Kurtz, Esq.

Kurt J. Boehm, Esq.

Jody Kyler Cohn, Esq.

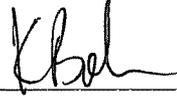
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

cc: Certificate of Service
Quang Nyugen, Esq.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and regular U.S. Mail to all parties on this 5th day of June, 2013.



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OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF APPLICATION OF KENTUCKY POWER :
COMPANY FOR APPROVAL OF THE TERMS AND :
CONDITIONS OF THE RENEWABLE ENERGY PURCHASE :
AGREEMENT FOR BIOMASS ENERGY RESOURCES :
BETWEEN THE COMPANY AND ECOPOWER GENERATION : **Case No. 2013-00144**
HAZARD LLC AUTHORIZATION TO ENTER INTO THE :
AGREEMENT; GRANT OF CERTAIN DECLARATORY :
RELIEF; AND GRANT OF ALL OTHER REQUIRED :
APPROVALS AND RELIEF :
:

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'s
SECOND SET OF DATA REQUESTS
TO
KENTUCKY POWER COMPANY

Dated: June 5, 2013

DEFINITIONS

1. “Document(s)” is used in its customary broad sense and includes electronic mail and all written, typed, printed, electronic, computerized, recorded or graphic statements, memoranda, reports, communications or other matter, however produced or reproduced, and whether or not now in existence, or in your possession.
2. “Study” means any written, recorded, transcribed, taped, filmed, or graphic matter, however produced or reproduced, either formally or informally, a particular issue or situation, in whatever detail, whether or not the consideration of the issue or situation is in a preliminary stage, and whether or not the consideration was discontinued prior to completion whether preliminary or final, and whether or not referred to in Big Rivers’ direct testimony.
3. If any document requested herein was at one time in existence, but has been lost, discarded or destroyed, identify such document as completely as possible, including the type of document, its date, the date or approximate date it was lost, discarded or destroyed, the identity of the person (s) who last had possession of the document and the identity of all persons having knowledge of the contents thereof.
4. “Person” means any natural person, corporation, professional corporation, partnership, association, joint venture, proprietorship, firm, or the other business enterprise or legal entity.
5. A request to identify a natural person means to state his or her full name and residence address, his or her present last known position and business affiliation at the time in question.
6. A request to identify a document means to state the date or dates, author or originator, subject matter, all addressees and recipients, type of document (e.g., letter, memorandum, telegram, chart, etc.), number of code number thereof or other means of identifying it, and its present location and custodian. If any such document was, but is no longer in the Company’s possession or subject to its control, state what disposition was made of it.
7. A request to identify a person other than a natural person means to state its full name, the address of its principal office, and the type of entity.
8. “And” and “or” should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.
9. “Each” and “any” should be considered to be both singular and plural, unless specifically stated otherwise.
10. Words in the past tense should be considered to include the present, and words in the present tense include the past, unless specifically stated otherwise.
11. “You” or “your” means the person whose filed testimony is the subject of these interrogatories and, to the extent relevant and necessary to provide full and complete answers to any request, “you” or “your” may be deemed to include any person with information relevant to any interrogatory who is or was employed by or otherwise associated with the witness or who assisted, in any way, in the preparation of the witness’ testimony.
12. “Kentucky Power” means Kentucky Power Company and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.
13. “ecoPower” means ecoPower Generation-Hazard LLC and/or any of their officers, directors, employees, or agents who may have knowledge of the particular matter addressed.
14. “REPA” means the Renewable Energy Purchase Agreement for Biomass Energy Resources Between ecoPower and Kentucky Power.
15. The “Facility” means the ecoPower Facility to be located in the Coal Fields Regional Industrial Park in Perry County, Kentucky.
16. “The Application” means the Application and attachments filed by Kentucky Power on April 10, 2013 with the Kentucky Public Service Commission in Case No. 2013-00144.

INSTRUCTIONS

1. If any matter is evidenced by, referenced to, reflected by, represented by, or recorded in any document, please identify and produce for discovery and inspection each such document.
2. These interrogatories are continuing in nature, and information which the responding party later becomes aware of, or has access to, and which is responsive to any request is to be made available to Kentucky Industrial Utility Customers. Any studies, documents, or other subject matter not yet completed that will be relied upon during the course of this case should be so identified and provided as soon as they are completed. The Respondent is obliged to change, supplement and correct all answers to interrogatories to conform to available information, including such information as it first becomes available to the Respondent after the answers hereto are served.
3. Unless otherwise expressly provided, each interrogatory should be construed independently and not with reference to any other interrogatory herein for purpose of limitation.
4. The answers provided should first restate the question asked and also identify the person(s) supplying the information.
5. Please answer each designated part of each information request separately. If you do not have complete information with respect to any interrogatory, so state and give as much information as you do have with respect to the matter inquired about, and identify each person whom you believe may have additional information with respect thereto.
6. In the case of multiple witnesses, each interrogatory should be considered to apply to each witness who will testify to the information requested. Where copies of testimony, transcripts or depositions are requested, each witness should respond individually to the information request.
7. The interrogatories are to be answered under oath by the witness(es) responsible for the answer.
8. Responses to requests for revenue, expense and rate base data should provide data on the basis of Total Company as well as Intrastate data, unless otherwise requested.

**KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'s
SECOND SET OF DATA REQUESTS
TO
KENTUCKY POWER COMPANY
Docket No. 2013-00144**

- Q2.1 In response to KPSC 1-1, Kentucky Power indicated that the potential contract price adjustment if ecoPower is able to qualify for the federal renewable energy production tax credit is in the range of \$5-\$10/MWh during the term of the credit. Except for the generalized reference in the final sentence of section 7.1 in the proposed ecoPower REPA, is the specific calculation of this downward adjustment to the contract price spelled out in detail in any other section of the REPA? If so, please state where in the REPA. If not, why not?
- Q2.2 In response to KIUC 1-14, Kentucky Power provided an attachment that includes a Proposal Data Sheet (dated 6/30/11). At the bottom of that Proposal Data Sheet, there is an initially proposed sale price that is well below the final REPA contract price. The final REPA price appears to be 49% higher than the sale price in the 6/30/11 Proposal Data Sheet. Please document how and when the contract price changed from the time of the 6/30/11 Proposal Data Sheet through the execution of the REPA and for what reason(s).
- Q2.3 Regarding the Proposal Data Sheet in Kentucky Power's response to KIUC 1-14, besides the proposed sale price, please document any other changes to the values in this Proposal Data Sheet that would bring the document up to Kentucky Power's latest understanding of the transaction or facility.
- Q2.4 Please confirm that the REPA obligates Kentucky Power to purchase up to 62.5 MW of the ecoPower facility's output during the term of the transaction. In Kentucky Power's application, the facility's net nominal capacity is described as 58.5 MW (paragraph 8, page 5). Given that section 3.1 of the REPA gives ecoPower the right to develop a facility with an aggregate nominal or "nameplate" (gross) capacity of up to 66 MW, please provide all basis and foundation for Kentucky Power's assumption that the facility's full load net capacity will be 58.5 MW.
- Q2.5 What is the expected house load (in MW) for the ecoPower facility that is assumed in Kentucky Power's net capacity estimate?
- Q2.6 Please provide Kentucky Power's expected annual energy purchases (in MWhs) from the ecoPower facility that are assumed in Exhibit RKW-1. What net capacity is assumed in this annual energy purchase estimate?
- Q2.7 What is the vintage or when was Kentucky Power provided with the financial model in the confidential attachment of Kentucky Power's response to KIUC 1-14? Is this the latest version that Kentucky Power has? If not, please provide the latest version.
- Q2.8 Is the financial information in Kentucky Power's response to KIUC 1-24 (dated 6/7/11) the latest such information that Kentucky Power has? If not, please provide the latest version.

- Q2.9 In response to the KPSC 1-10, Kentucky Power noted that there were 75 hours during the 5/1/12-4/30/13 period where the cost of PJM energy and capacity was greater than the proposed REPA price. Please provide, in electronic format, the hourly PJM price (in \$/MWh) for every hour of the 5/1/12-4/30/13 period that went into the above determination. If that PJM price is divisible into energy and capacity price components, please provide those components.
- Q2.10 As part of its utility planning process, does Kentucky Power have a forecast of market energy prices at which Kentucky Power may be able to buy or sell energy in the future? If so, please provide such forecast in electronic format for as many years as possible during the proposed REPA term and at the most detailed time level available (e.g., hourly, monthly on-peak/off-peak, etc.). If there are two different forecasts for purchases and sales, please provide both.
- Q2.11 As part of its utility planning process, does Kentucky Power have a forecast of renewable energy credit (REC) prices at which Kentucky Power may be able to buy or sell RECs in the future? If so, please provide such forecast for as many years as possible during the proposed REPA term. If there are two different forecasts for purchases and sales, please provide both.
- Q2.12 Refer to the Company's response to KIUC 1-22, which sought "all reasons for the Company's position on sharing these incremental margins" on the additional energy that will be sold into the market (after recovering the entirety of the purchased power expense related to the proposed PPA through the rider) 60% to customers and 40% to the Company.
- a. In its response, the Company did not provide any reasons. Instead, the Company merely asserted that the present 60%/40% approved pursuant to the Commission's adoption of a settlement in Case No. 2009-00459 "is a fair, just, and reasonable allocation" until the issue is again addressed in the Company's next base rate case. Please provide all reasons why the Company believes that it should retain 40% of the margins on the additional energy sold into the market while customers will be required to pay for 100% of the costs pursuant to the proposed PPA.
 - b. Please confirm that the "must run" status of the proposed PPA (see response to KIUC 1-23) will force the Company's other lower cost generation to move up the dispatch "stack" out of economic order and thus, shift the Company's lower cost energy from serving retail load at cost to supplying off-system sales at market. Please explain your response.
- Q2.13 Refer to the Company's response to KIUC 1-34 regarding AEP's consideration of debt equivalents in the evaluation of PPA resource bids. Please describe with specificity how AEP incorporates the effects of S&P's or any other rating agency's treatment of a PPA as a debt equivalent in the quantifications used to rank alternative resource bids or options that include one or more PPAs. Please provide an illustration or actual example of the mechanics of these quantifications, including the mechanics of the projected cash flows, discounting, risk factor applied, and the calculation of the additional equity contribution.
- Q2.14 Refer to the Company's response to KIUC 1-38 and the attachment to that response regarding AEP's consideration of debt equivalents in the evaluation of PPA resource bids.
- a. Please describe the Company's calculation of the additional equity contributions that are shown on the attachment to this response and provide the electronic spreadsheet with formulas intact. In addition, please describe and source all assumptions used in this calculation.

- b. Please explain why the Company calculated the additional equity contribution as 45.0% of the debt equivalent under the 10% and 25% risk factor assumptions rather than solving so that the equity ratio was 45.0% of total capitalization after including the PPA debt equivalent in total capitalization. Was it the Company's intent to calculate the additional equity contribution so that the equity ratio was 45.0% of total capitalization after including the PPA debt equivalent in total capitalization? If that was not the Company's intent, then please explain why it was not.

Q2.15 Refer to Wohnhas Exhibit RKW-1.

- a. Please explain why Mr. Wohnhas did not include the cost of the additional equity contribution in the capital structure to offset the PPA debt equivalent in total capitalization.
- b. Please confirm that if Mr. Wohnhas had included the costs associated with a richer common equity ratio necessary to offset the imputed PPA debt equivalent that it would increase the incremental revenue requirement and the percentage increase.
- c. Is it the Company's position that it will not seek to include the costs associated with a richer common equity ratio necessary to offset the imputed PPA debt equivalent in the revenue requirement, regardless of the effect would have been reflected in whole or in part in the proposed recovery rider, in base rates, ECR rider, or any other rider or rate that includes a return on rate base investment or capitalization? If this is the Company's position, then please explain how it will adjust the test year common equity ratio for ratemaking purposes to exclude the increment necessary to offset the PPA debt equivalent. Please be specific. If this is not the Company's position, then please confirm that it will seek to include the costs associated with a richer common equity ratio necessary to offset the imputed PPA debt equivalent in the revenue requirement, describe how it will seek to do so and in which tariff components (proposed rider, ECR, base, etc.).

Q2.16 Refer to page 3 Exhibit RKW-2, which replicates the S&P's methodology for imputing debt for U.S. utilities' power purchase agreements, wherein S&P's 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 costs.

Please provide all written evidence and documentation that S&P's would use or has ever used a risk factor of less than 25% where a regulator has established a power cost adjustment mechanism that recovers all prudent PPA costs. In addition, provide all examples of which AEP is aware where S&P's used a risk factor of less than 25% to calculate the risk factor for imputing debt for a PPA. Provide all relevant facts for each such example.

Q2.17 Please provide all written evidence and documentation that AEP bargained for a lower rate than is reflected in the proposed REPA and shown on Exhibit RKW-1. To the extent that AEP actually bargained for a lower rate, please describe this process, including the time period and major milestones and dates during this bargaining process, and provide a copy of all related correspondence and analyses demonstrating that AEP indeed bargained for a lower rate and that it considered the impact of these rates/costs on its Kentucky retail customers.

Q2.18 The Company's Application seeks a declaratory order "that the concurrent recovery by means of a monthly rider or surcharge to Kentucky Power's rates of all costs associated with the REPA is appropriate." However, the Company does not provide an actual proposed rider or surcharge in conjunction with the Application or the testimony of its witnesses. Please provide an actual proposed rider or surcharge or explain why the Company cannot provide the proposed rider or surcharge in this proceeding and instead, only can provide the proposed rider or surcharge in conjunction with its next base rate filing.

Respectfully submitted,



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June 5, 2013

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