

421 West Main Street
Post Office Box 634
Frankfort, KY 40602-0634
[502] 223-3477
[502] 223-4124 Fax
www.stites.com

May 30, 2014

Mark R. Overstreet
(502) 209-1219
(502) 223-4387 FAX
moverstreet@stites.com

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RECEIVED

MAY 30 2014

PUBLIC SERVICE
COMMISSION

RE: Case No. 2013-00430 – Supplemental Testimony of Ranie K. Wohnhas

Dear Mr. Derouen:

Enclosed please find and accept for filing the Supplemental Testimony of Ranie K. Wohnhas.

A copy of the testimony is being served on counsel for Kentucky Industrial Utility Customers, Inc. Please do not hesitate to contact me if you have any questions.

Very truly yours,


Mark R. Overstreet

MRO

cc: Michael L. Kurtz

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

RECEIVED

MAY 30 2014

PUBLIC SERVICE
COMMISSION

In The Matter Of:

The Application Of Kentucky Power Company For:)
(1) A Certificate Of Public Convenience And Necessity)
Authorizing The Company To Convert Big Sandy Unit 1)
To A Natural Gas-Fired Unit; And (2) For All Other)
Required Approvals And Relief)

Case No. 2013-00430

**SUPPLEMENTAL TESTIMONY
OF
RANIE K. WOHNHAS
ON BEHALF OF KENTUCKY POWER COMPANY**

**SUPPLEMENTAL TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

CASE NO. 2013-00430

TABLE OF CONTENTS

I.	Introduction	1
II.	Fuel Supply RFP Results.....	2
III.	MATS Requirements Compliance Extensions.....	6

**SUPPLEMENTAL TESTIMONY OF
RANIE K. WOHNHAS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

2 A. My name is Ranie K. Wohnhas. My position is Managing Director, Regulatory and
3 Finance, Kentucky Power Company ("Kentucky Power" or "Company"). My business
4 address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

5 **Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?**

6 A. Yes. I filed direct testimony in support of the Company's application. I am also the
7 sponsor of responses to data requests.

8 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

9 A. The purpose of my testimony is to confirm that the conversion of Big Sandy Unit 1 to a
10 natural gas fuel supply remains the better least-cost alternative for the disposition of the
11 unit in response to the impending Mercury and Air Toxic Standards ("MATS")
12 requirements. I do so in light of the results of the January 8, 2014 request for proposals
13 ("RFP") issued by American Electric Power Service Corporation ("AEPSC"), on behalf
14 of Kentucky Power, for the construction, operation, and maintenance of a natural gas
15 pipeline lateral ("Lateral") to provide natural gas to Big Sandy Unit 1 after the proposed
16 conversion is complete. I also provide the Commission with an update concerning the
17 recent action by the Kentucky Division for Air Quality with respect to the Company's
18 request for an extension of the compliance date under MATS for Big Sandy Unit 1 and
19 Big Sandy Unit 2.

II. FUEL SUPPLY RFP RESULTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

Q. WHAT WERE THE KEY TERMS OF THE RFP?

A. Through the RFP, Kentucky Power sought proposals from qualified bidders for the construction, operation and maintenance of a natural gas pipeline lateral to serve Big Sandy Unit 1 after the boiler has been converted to natural gas. The Lateral must be able to deliver 72,000 mmbtu/day to Big Sandy Unit 1 and must be in service by April 1, 2016 to meet the anticipated commercial operation date of June 1, 2016. The Lateral is to be owned and operated by the transportation provider, which will be responsible for both obtaining all required permits and regulatory approvals and the construction and operation of the pipeline. All costs associated with the construction of the Lateral are to be borne by the bidder and recovered over a 15-year term.

Q. HOW MANY PROPOSALS DID AEPSC RECEIVE IN RESPONSE TO THE RFP?

A. AEPSC, on behalf of Kentucky Power, received nine proposals from seven different bidders. After preliminary review of the proposals, three were considered non-conforming. AEPSC then identified for further discussion and evaluation the four least-cost proposals that best met Kentucky Power's needs. All four of the identified proposals included firm transportation on the Lateral to Big Sandy. The Columbia Gas proposal also included firm transportation on the Interstate mainline from the supply source to the Lateral.

1 **Q. WHICH PROPOSAL DID KENTUCKY POWER SELECT?**

2 A. Kentucky Power selected the response submitted by Columbia Gas Transmission, LLC
3 ("Columbia Gas"). The net present value ("NPV") of the costs of the Columbia Gas
4 proposal over the 15-year term is estimated to be \$49.35 million.

5 **Q. HAS KENTUCKY POWER ENTERED INTO A CONTRACT WITH COLUMBIA
6 GAS FOR THE PIPELINE AND THE TRANSPORTATION SERVICES
7 CONTEMPLATED IN THE RFP?**

8 A. No. Kentucky Power notified Columbia Gas on May 9, 2014 that it was the winning
9 bidder. The parties currently are negotiating the terms of an agreement for the
10 construction of the Lateral, and a service agreement for the transportation services
11 contemplated in the RFP.

12 **Q. WHAT WAS CONSIDERED IN EVALUATING THE BIDS?**

13 A. Kentucky Power evaluated the cost of each bid by calculating the NPV of the total cost to
14 Kentucky Power under each bid over the 15-year term of the contract. The total cost
15 included three components: the cost of the Lateral, the cost of transportation on the
16 Interstate mainline from the supply source to the Lateral, and the differential in the cost
17 of supply between varying supply points. As part of this total cost NPV analysis, the
18 Company was required to estimate a capacity factor for the converted Big Sandy Unit 1
19 during the 15-year term of the contract.

20 **Q. WHAT WAS THE ESTIMATED CAPACITY FACTOR THE COMPANY USED
21 IN ITS ANALYSIS?**

22 A. The Company's modeling provided a reasonable range for capacity factors of nine to 15
23 percent, with the most likely outcome trending toward the lower end of that range.

1 **Q. WAS THE COLUMBIA GAS PROPOSAL THE LEAST COST PROPOSAL?**

2 A. The Columbia Gas proposal carried the lowest total cost NPV when comparing it to the
3 other proposals when using an indicative offer for firm transportation on the respective
4 Interstate mainline as one of the analysis assumptions. This is true whether a nine
5 percent or 15% capacity factor was assumed in the calculations. In addition, assuming a
6 15% capacity factor and interruptible transportation on the Interstate mainline to the
7 Lateral, the total cost NPV of the Columbia Gas proposal for *firm transportation* on the
8 Interstate mainline and the Lateral was only 7.4% greater than the total cost NPV of the
9 least-cost proposal that would provide Kentucky Power with *interruptible transportation*
10 on the Interstate mainline to the Lateral.

11 **Q. WHY WAS THE COLUMBIA GAS PROPOSAL SELECTED?**

12 A. First, the Columbia Gas proposal carried the lowest total cost NPV when compared to the
13 other bidders when using the assumption of firm transportation on the respective
14 Interstate mainline to the Lateral. Again, this was true whether a nine percent or a 15%
15 capacity factor was assumed in the modeling. Second, the Columbia Gas proposal
16 provided the advantages of firm transportation on the Interstate mainline as well as the
17 Lateral.

18 **Q. WHY IS FIRM TRANSPORTATION IMPORTANT?**

19 A. Firm transportation allows for lower risk of transportation curtailment during peak
20 natural gas demand periods, which frequently coincide with periods of peak demand for
21 electricity. This is an important benefit to Kentucky Power because Big Sandy Unit 1 is
22 anticipated to operate as an intermediate duty cycle unit, operating primarily when load is
23 highest. The Company wants to ensure the unit is available to provide energy to its

1 customers when needed, and firm transportation will allow Kentucky Power to have more
2 certainty when dispatching the unit into PJM, particularly during high demand periods.
3 Second, PJM is considering downgrading the capacity value of gas generators without
4 firm transportation contracts. Entering into a firm transportation agreement ensures that
5 Kentucky Power will be credited the full capacity value for Big Sandy Unit 1 by PJM
6 should PJM move forward with this concept.

7 **Q. DO THE RESULTS OF THE RFP FOR THE NATURAL GAS LATERAL**
8 **CONFIRM THE COMPANY'S SELECTION OF THE CONVERSION OF BIG**
9 **SANDY UNIT 1 AS THE BETTER LEAST-COST ALTERNATIVE FOR THE**
10 **DISPOSITION OF THE UNIT IN LIGHT OF THE IMPENDING MATS**
11 **REQUIREMENTS?**

12 **A.** Yes. The results of the subsequently issued January 8, 2014 RFP were not available at
13 the time Company Witness Weaver's December 6, 2013 testimony was prepared. As a
14 result, preliminary indicative estimates were used for the Lateral cost in Company
15 Witness Weaver's economic analysis in this case that showed the Big Sandy Unit 1
16 conversion is a least cost alternative. The evaluation of the total cost of the Lateral based
17 on Columbia Gas' response to the Company's RFP yielded a lesser cost than the
18 preliminary indicative estimate used in Mr. Weaver's modeling. As a result, the
19 cumulative present worth¹ ("CPW") of the Big Sandy Unit 1 conversion decreased by
20 nearly \$14 million, making the difference between the conversion and the best
21 benchmark proposal from the 250 MW RFP approximately \$3 million (or 0.05% over the
22 full study period) instead of \$16.883 million shown in Mr. Weaver's analysis. Thus,
23 while the CPW of the Big Sandy Unit 1 conversion still carries a slightly higher CPW

¹ Cumulative present worth is equivalent to a net present value determination

1 than the best benchmark proposal from the 250 MW RFP, the difference between the
2 two, which was within the margin of error of the modeling at \$16.883 million, not only
3 remains within the margin of error, but has been reduced by almost 85%.

4 In sum, the results of the Lateral RFP confirmed the Company's selection of the Big
5 Sandy Unit 1 as a least cost alternative for the disposition of the unit in light of the
6 impending MATS requirements.

7 **III. MATS REQUIREMENTS COMPLIANCE EXTENSIONS**

8 **Q. DID KENTUCKY POWER SEEK EXTENSION OF MATS REQUIREMENTS**
9 **FOR THE BIG SANDY UNITS?**

10 A. Yes. By letters dated March 27, 2014 and May 6, 2014, respectively, Kentucky Power
11 sought a compliance extension for the MATS requirements for Big Sandy Unit 2 and Big
12 Sandy Unit 1.

13 **Q. HAS THE DIVISION FOR AIR QUALITY ACTED ON YOUR REQUESTS?**

14 A. Yes. By letter dated May 2, 2014 the Division of Air Quality granted an extension of the
15 compliance date under MATS for Big Sandy Unit 2 until June 1, 2015. A extension until
16 April 16, 2016 was granted on May 19, 2014 for Big Sandy Unit 1. Copies of these
17 letters are attached to my testimony as RKW-1 and RKW-2.

18 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

19 A. Yes.

VERIFICATION

I, Ranie K. Wohnhas, Managing Director Regulatory and Finance, after being duly sworn, state that the facts contained in this Supplemental Testimony are true and accurate to the best of my knowledge.

Ranie K. Wohnhas

Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this 30th day of May, 2014.

My commission expires: 1/21/2015

 Perry J. [Signature]
NOTARY PUBLIC



Steven L. Beshear
Governor

Energy and Environment Cabinet
Department for Environmental Protection
Division for Air Quality
200 Fair Oaks Lane, 1st Floor
Frankfort, Kentucky 40601
www.air.ky.gov

Leonard K. Peters
Secretary

May 19, 2014

Mr. John McManus,
Vice President, Environment Services Division
American Electric Power
1 Riverside Plaza
Columbus, OH 43215-2373

RE: Compliance extension approval for 40 CFR 63, Subpart UUUUU
Permittee Name: American Electric Power
Source Name: Big Sandy Power Plant
A/ID/Activity: 2610/21-127-00003/APE20140002
Permit: V-06-053

Dear Mr. McManus:

This letter is in response to your letter dated May 6, 2014, requesting a compliance extension to the federal Mercury and Air Toxic Standards (MATS) requirements for the Big Sandy Power Plant located in Lawrence County, Kentucky. After reviewing the request, the Division concludes that the submittal contains sufficient information to make a determination regarding the request for an extension of compliance. Furthermore, the Division grants the compliance extension request for Unit 1 until April 16, 2016. This compliance extension applies to the requirements established under 40 CFR 63, Subpart UUUUU.

In accordance with 40 CFR 63.6(i)(4), the conditions of the extension of compliance, specifically the compliance date, granted through this approval letter will be incorporated into the title V permit upon the next significant revision or renewal. If you have further questions regarding this matter, please contact Mr. Derek Picklesimer, Combustion Section Supervisor of the Permit Review Branch at (502) 564-3999, extension 4464.

Sincerely,

E-Signed by Sean Alteri
VERIFY authenticity with ApproveIt
Sean Alteri

Sean Alteri
Director

SA/DP



Steven L. Beshear
Governor

Energy and Environment Cabinet
Department for Environmental Protection
Division for Air Quality
200 Fair Oaks Lane, 1st Floor
Frankfort, Kentucky 40601
www.alr.ky.gov

Leonard K. Peters
Secretary

May 2, 2014

Mr. John McManus,
Vice President, Environment Services Division
American Electric Power
1 Riverside Plaza
Columbus, OH 43215-2373

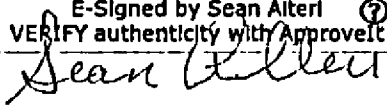
RE: Compliance extension approval for 40 CFR 63, Subpart UUUUU
Permittee Name: American Electric Power
Source Name: Big Sandy Power Plant
A/ID/Activity: 2610/21-127-00003/APE20140001
Permit: V-06-053

Dear Mr. McManus:

This letter is in response to your letter dated March 27, 2014, requesting a compliance extension to the federal Mercury and Air Toxic Standards (MATS) requirements for the Big Sandy Power Plant located in Lawrence County, Kentucky. After reviewing the request, the Division concludes that the submittal contains sufficient information to make a determination regarding the request for an extension of compliance. Furthermore, the Division grants the compliance extension request for Unit 2 until June 1, 2015. This compliance extension applies to the requirements established under 40 CFR 63, Subpart UUUUU.

In accordance with 40 CFR 63.6(i)(4), the conditions of the extension of compliance, specifically the compliance date, granted through this approval letter will be incorporated into the title V permit upon the next significant revision or renewal. If you have further questions regarding this matter, please contact Mr. Derek Picklesimer, Combustion Section Supervisor of the Permit Review Branch at (502) 564-3999, extension 4464.

Sincerely,

E-Signed by Sean Alteri
VERIFY authenticity with ApproveIt


Sean Alteri
Director

SA/DP