

CASE

NUMBER:

99 - 151

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

AUG 27 1999

PUBLIC SERVICE
COMMISSION

In the Matter of:

KENTUCKY ELECTRIC STEEL, INC.)
)
) COMPLAINT)
)
 v.)
)
) KENTUCKY POWER COMPANY)
)
) DEFENDANT)

CASE NO. 99-151

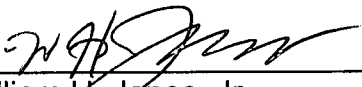
MOTION TO DISMISS

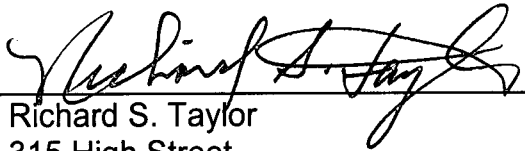
Comes the Complainant, Kentucky Electric Steel, Inc., and moves the Commission to dismiss the Complaint herein without prejudice.

As grounds, counsel states that the Complainant does not wish to burden the Commission with a hearing and at this time will rely upon the assurances and representations of the Defendant in its Answer that the Defendant will provide reasonable and reliable service to the Complainant. Counsel for Complainant has additionally been authorized by Mark R. Overstreet, counsel to the Defendant, to state that the Defendant does not object to a dismissal without prejudice.

WHEREOF, Kentucky Electric Steel, Inc. moves the Commission for an Order dismissing its Complaint without prejudice.

Respectfully submitted,

BY: 
William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards
1544 Winchester Avenue
P.O. Box 1111
Ashland, KY 41105-1111

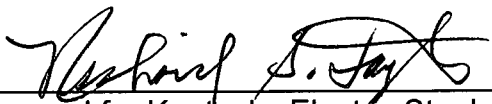
BY: 
Richard S. Taylor
315 High Street
Frankfort, KY 40601

I hereby certify that a true and correct copy
of the foregoing Motion to Dismiss has been
served on the parties hereto by mailing same,
postage prepaid, to:

Mark R. Overstreet
Stites & Harbison
P.O. Box 634
Frankfort, KY 40602-0634

Kevin F. Duffy
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, OH 43215-2373

This 21st day of August, 1999.


Counsel for Kentucky Electric Steel, Inc.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

AUG 12 1999

PUBLIC SERVICE
COMMISSION

In the Matter of:

KENTUCKY ELECTRIC STEEL, INC.)	
)	
COMPLAINANT)	
v.)	CASE NO. 99-151
)	
KENTUCKY POWER COMPANY)	
)	
DEFENDANT)	

ANSWER

Pursuant to the Commission's August 2, 1999 Order in this case, and 807 KAR 5:001, Section 12, the Defendant Kentucky Power Company ("Kentucky Power" or "the Company"), for its answer to the complaint in this proceeding, respectfully states as follows:

1. Kentucky Power admits the allegations in paragraphs 1, 2, 3 and 4 of the complaint.
2. Kentucky Power admits the allegations in the first three sentences of paragraph 5 of the complaint. Kentucky Power has no information or belief upon the subject sufficient to enable it to answer the allegations contained in the remainder of paragraph 5. Further answering, Kentucky Power states that Complainant Kentucky Electric Steel ("KES") is served by Kentucky Power pursuant to a special Contract for Operating Reserve Interruptible Service approved by the Commission on November 13, 1997. Under the special contract, the Company has the right to interrupt up to 40.5 MW of KES' service (the interruptible portion of its contract reservation)

under certain circumstances which allow the 40.5 MW to be counted as part of the operating reserve of the American Electric Power ("AEP") System as required by the East Central Area Reliability Coordinating Agreement ("ECAR"). In the case of any such interruption, the Contract requires the Company to restore service to KES within thirty minutes. In return for allowing the Company to interrupt service to KES under such circumstances, the Contract provides for prices substantially below those which KES would otherwise pay as a tariff customer of Kentucky Power. KES is Kentucky Power's only interruptible service customer.

3. Kentucky Power admits the allegations in paragraph 6 of the complaint.

4. Kentucky Power admits the allegations in the first sentence of paragraph 7 of the complaint. Kentucky Power denies the allegations in the remainder of paragraph 7.

5. Kentucky Power denies the allegations in paragraph 8 of the complaint, except as set forth hereinbelow. Further answering, Kentucky Power states that its capacity resources from the Big Sandy generating station and Unit Power purchase from the Rockport generating station total 1,450 MW, which is in excess of its all-time peak load of 1,432 MW, established on January 5, 1999, and its all-time summer peak load of 1,215 MW, established on July 30, 1999. Further answering, Kentucky Power states that it is a member of the AEP System, a multistate electric utility holding company system which is planned and operated on an integrated basis pursuant to the AEP System Interconnection Agreement. Under the Interconnection Agreement, all power resources of the AEP System are available to satisfy the combined load requirements of all of the operating companies, including Kentucky Power. Therefore, in assessing the adequacy of Kentucky Power's resources to serve its loads, the relevant measures are the AEP System's total load and total resources.

6. Kentucky Power admits the allegations in paragraph 9 of the complaint. Further answering, the Company states that AEP also owns generation and transmission facilities and provides electric service to customers in Virginia.

7. Kentucky Power denies the allegations in paragraph 10 of the complaint, except as set forth hereinbelow. Further answering, Kentucky Power states:

- a. The AEP System has adequate generating resources to serve its projected loads and to maintain a reasonable level of reserves.
- b. AEP's Cook nuclear units 1 and 2, with a capacity of approximately 2,000 MW, are undergoing an extended outage. The Cook units are not and will not be available at any time during the summer months of 1999.
- c. Notwithstanding the unavailability of the Cook nuclear units, AEP anticipates that its generating resources and power purchases will continue to be sufficient to provide adequate and reliable service to its customers during the summer of 1999. The Commission conducted an inquiry into this subject, and requested Kentucky Power (and other utilities subject to its jurisdiction) to meet with the Commission to discuss the Company's generation and transmission adequacy for the then-upcoming summer period. Kentucky Power met with the Commission on April 29, 1999 and presented the materials attached as Exhibit A to this Answer.¹ Representatives of the Kentucky Attorney General, the Kentucky Industrial Utility Customers and KES were present at the meeting.
- d. Thus far, events have proven Kentucky Power's assessment of adequacy for the summer of 1999 to be correct, notwithstanding that the AEP System has

experienced more severe conditions than expected. The month of July, 1999 was one of the hottest months on record in AEP's service territory. Despite these extreme conditions, AEP and Kentucky Power have been able to serve their firm load. While unable to guarantee what will occur for the remainder of the summer, AEP expects that its resources will continue to be adequate.

- e. AEP has now established restart dates for the Cook nuclear units. Unit 2 is scheduled to return to service in April, 2000 and Unit 1 is scheduled to return to service in September, 2000. Also, as of January 1, 2000, Ormet Primary Aluminum Corporation, AEP's largest customer, will begin taking service from another supplier for its load, which exceeds 500 MW, and a Unit Power Agreement under which AEP supplies up to 455 MW of capacity from the Rockport plant to Virginia Power Company, as well as an additional agreement under which AEP supplies up to 45 MW of supplemental power to Virginia Power, will expire. These events will make about 1,000 MW of additional capacity resources available to meet the load requirements of AEP's customers. Finally, the Commission and State Commissions in Ohio, Indiana and Virginia have approved AEP's Emergency Curtailable Service Tariff, which allows customers to agree to curtailment of their load, with compensation, in order to allow AEP to maintain service to its other firm customers pursuant to the emergency operating plan for capacity deficiencies.

¹ Exhibit A has redacted from it certain limited commercially sensitive information. The Company sought and was granted protection of such information pursuant to 807 KAR 5:001, Section 7. The redacted information was provided to the Commission and other participants in the meeting who signed confidentiality agreements.

8. Kentucky Power denies the allegations in paragraph 11 of the complaint. Further answering, Kentucky Power states that, despite the severe conditions in July, 1999, KES, the Company's only interruptible customer, was not involuntarily interrupted at any time.

9. Pursuant to the Commission's August 2, 1999 Order, Kentucky Power is not obligated to answer paragraphs 12, 13, 14, 15 and 16 of the complaint, as those paragraphs contain allegations relating to AEP's proposed merger with Central and South West Corporation, which the Commission has found to have been rendered moot by the Complainant's actions in Case No. 99-149.

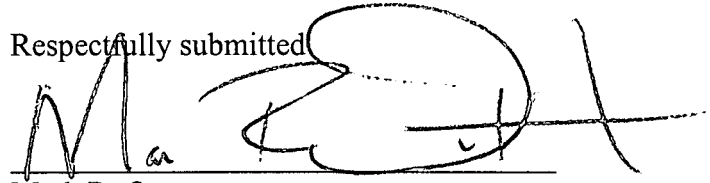
10. AEP denies the allegations and opposes the relief sought in paragraph 17 of the complaint. Further answering, Kentucky Power states that:

- a. The Commission has already conducted an inquiry into the adequacy of Kentucky Power's resources to serve its loads, thus rendering moot KES' request for such an inquiry.
- b. Insofar as the complaint requests review of the reasonableness of costs included in Kentucky Power's fuel clause or other adjustment clauses or its rates, adequate mechanisms already exist for the Commission's review of such costs.
- c. The relief sought regarding AEP's proposed merger has been rendered moot, as found by the Commission in its August 2, 1999 Order.

11. AEP denies the allegations and opposes the relief sought in paragraph 18 of the complaint. Further, the relief sought regarding AEP's proposed merger has been rendered moot, as found by the Commission in its August 2, 1999 Order.

WHEREFORE, Kentucky Power prays that the complaint be dismissed.

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.

Mark R. Overstreet
Stites & Harbison
P. O. Box 634
Frankfort, Kentucky 40602-0634

Kevin F. Duffy
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215-2373

CERTIFICATE OF SERVICE

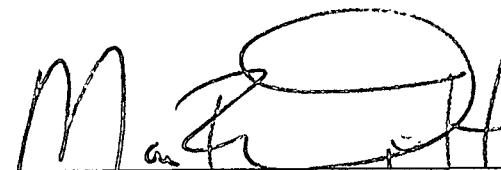
I hereby certify that a copy of the foregoing Answer was served by first class mail, postage prepaid, on this 12th day of August, 1999 upon:

Peter J.P. Brickfield
James W. Brew
Brickfield Burchette Ritts, P.C.
Eighth Floor, West Tower
1025 Thomas Jefferson Street, N.W.
Washington, D.C. 20007

Richard S. Taylor
Capital Link Consultants
315 High Street
Frankfort, Kentucky 40601

William H. Jones, Jr.
VanAntwerp, Monge, Jones & Edwards,
LLP
1544 Winchester Avenue
Fifth Floor
Ashland, Kentucky 41105-1111

Kentucky Electric Steel, Inc.
P.O. Box 3500
Ashland, Kentucky 41105-3500



Mark R. Overstreet

KE057:KE132:2630:FRANKFORT

**KENTUCKY POWER COMPANY
AMERICAN ELECTRIC POWER SYSTEM**

**ASSESSMENT
OF
GENERATION AND TRANSMISSION ADEQUACY
SUMMER 1999**

DISCUSSION AT KENTUCKY PSC OFFICES

April 29, 1999

**ECAR and MAIN Regions
Projected Peak Conditions - MW
Summer 1999**

	<u>ECAR</u>	<u>MAIN</u>
1. Total Internal Demand (TID)	94,996	48,157
Direct Control Load Mgt.	(92)	-
Interruptible Demand	<u>(3,224)</u>	<u>(2,661)</u>
2. Net Internal Demand (NID)	91,680	45,496
3. Net Capacity Resources	104,757	52,447
4. Margin (TID) - MW	9,761	4,290
- % Of TID	10.3%	8.9%
5. Margin (NID) - MW	13,077	6,951
- % Of NID	14.3%	15.3%
6. Margin (NID) Excluding Cook Plant		
- MW	11,017	
- % Of NID	12.0%	

**Kentucky Power Company and AEP System
Summer Peak Demands - MW
Actual 1998 vs. Projected 1999**

	<u>Actual 1998</u>	<u>Projected 1999</u>	<u>Increase</u>
<u>Kentucky Power Company</u>			
Peak Internal Demand	1,213 [08/28/98]	1,231	18 (1.5%)
<u>AEP System</u>			
Peak Internal Demand	19,414 [07/21/98]	19,793	379 (2.0%)
Buckeye Power Load	1,186	1,131	
Committed Off-System Sales (a)	<u>315</u>	<u>584</u>	
 Total Demand	 <u>20,915</u>	 <u>21,508</u>	 593 (2.8%)

Note: (a) Committed Sales Include:

Firm Power to RPL	8	8	
Supplemental Power to VP	0	45	
Long Term Power to NCEMC	204	205	
Limited Term Power Sales	<u>103</u>	<u>326</u>	
Sum	<u>315</u>	<u>584</u>	

**American Electric Power System
(Including Buckeye Power)
Projected Peak Generation - MW
June, July and August 1999**

	<u>June</u>	<u>July</u>	<u>August</u>
1. Demand			
Peak Internal Demand	18,579	19,432	19,793
Buckeye Power Load	1,019	1,131	1,131
Committed Off-System Sales	<u>584</u>	<u>584</u>	<u>584</u>
Total Demand	20,182	21,147	21,508
 2. Generation Resources			
 Total Resources	25,041	25,046	25,046
 3. Reserve Margin			
Including all Generation Resources			
MW	4,859	3,899	3,538
% of Demand	24.1%	18.4%	16.4%
 Excluding Cook Plant (2,060 MW)			
MW	2,799	1,839	1,478
% of Demand	13.9%	8.7%	6.9%

**American Electric Power System
(Including Buckeye Power)
Projected Peak Conditions - MW
Summer (August) 1999**

	<u>Based on Including Interruptible Load</u>	<u>Interruptible Load</u>	<u>Based on Excluding Interruptible Load</u>
1. Demand			
Peak Internal Demand	19,793	674	19,119
Buckeye Power Load	1,131	—	1,131
Committed Off-System Sales	<u>584</u>	<u>326</u>	<u>258</u>
Total Demand	21,508	1,000	20,508
 2. Generation Resources			
Total Resources	<u>25,046</u>		<u>25,046</u>
 3. Reserve Margin			
Including all Generation Resources			
MW	3,538		4,538
% of Demand	16.4%		22.1%
Excluding Cook Plant (2,060 MW)			
MW	1,478		2,478
% of Demand	6.9%		12.1%

American Electric Power System Generation Capacity Margin Utilization Summer (August) 1999

1. Projected Margin

With Interruptible Loads Fully Served	1,478 MW
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2. Margin Utilization

Operating Reserve Requirements	900 MW
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Typical Fossil-Capacity Random Outage	1,000 MW
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Additional Load Due to Severe Weather	1,300 MW
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3. Supplemental Capacity Resources

a. System Purchases - Hourly, Daily, etc.	to extent available
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b. Interruptibles with Buy-through Provisions	299 MW
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Interruptibles w/o Buy-through Provisions	375 MW
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c. Economic-Curtailable Loads	?
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Emergency-Curtailable Loads	?
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AEP Emergency Operating Plan Capacity Deficiency Procedure - Steps

1. Extra-load Capability of Generating Units	255 MW
2. Interruptible Loads	674
3. Supplementary Oil and Gas Firing (Regain Curtailed Gen.)	*
4. Emergency Hydro	25
5. Curtailment of Generating Station Use	25
6. Curtailment of Non-Essential Building Load	17
7. Voltage Reduction	147
8. Generating Plant Opacity Variance	15
9. Operation of Fourth St. Plant in Ft. Wayne (15 MW)	*
10. Curtailment of Short-Term Deliveries	326
11. Voluntary Load Curtailment	*
12. Mandatory Load Curtailment	*
13. Extension of Mandatory Load Curtailment	*

Kentucky Power Company and AEP System Transmission System Adequacy Summer 1999

1. Recent System Improvements
 - a. Inez Station
 - b. Wyoming Series Reactors
 - c. Dewey/Hazard Series Reactors

2. Expected AEP Transmission System Performance
 - a. Power-Flow Patterns
 - b. Transmission Service Reservations
 - c. Impact on KPCo Transmission Performance

INDEX FOR CASE: 99-151
AMERICAN ELECTRIC POWER
Complaints - Rates, Service
OF KENTUCKY ELECTRIC STEEL, INC.

IN THE MATTER OF KENTUCKY ELECTRIC STEEL, INC. VS. KENTUCKY
POWER COMPANY

SEQ NBR	ENTRY DATE	REMARKS
0001	04/13/99	Application.
0002	04/16/99	Acknowledgement letter.
0003	06/30/99	Second letter sent to Mark Davis; tariff due 7/15/99.
0004	08/02/99	Order entered; info due 8/12
M0001	08/12/99	MARK OVERSTREET KY POWER-ANSWER TO ORDER OF AUGUST 2,99
0005	08/19/99	Order scheduling 11/23 hearing; sets procedural schedule
M0002	08/27/99	KY ELECTRIC STEEL WILLIAM JONES-MOTION TO DISMISS
0006	09/02/99	FINAL ORDER DISMISSING CASE



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-151
AMERICAN ELECTRIC POWER

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on September 2, 1999.

See attached parties of record.

Stephanie Bell

Secretary of the Commission

SB/sa
Enclosure

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY. 40601

Honorables Peter J.P. Brickfield
& James W. Brew
Attorneys at Law
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West
Washington, DC. 20007

Honorable William H. Jones
Attorney at Law
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY. 41101

Kentucky Electric Steel, Inc.
P. O. Box 3500
Ashland, KY. 41105 3500

Kentucky Power Company
1701 Central Avenue
Ashland, KY. 41105

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY ELECTRIC STEEL, INC.)	
)	
COMPLAINANT)	
)	
v.)	CASE NO. 99-151
)	
KENTUCKY POWER COMPANY)	
)	
DEFENDANT)	

O R D E R

Kentucky Electric Steel, Inc. ("Kentucky Electric Steel") has moved to dismiss its complaint herein against Kentucky Power Company ("Kentucky Power"). In support of its motion Kentucky Electric Steel states that based upon the assurances and representations of Kentucky Power, it will rely on Kentucky Power to provide it reasonable and reliable service. In addition, the motion states that Kentucky Power Company has no objection to the motion to dismiss.

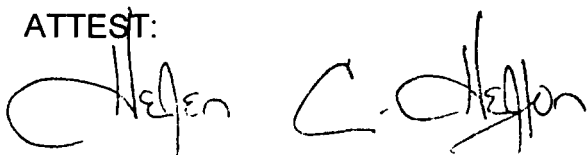
After considering the motion and being otherwise sufficiently advised, the Commission finds good cause exists to dismiss the complaint.

IT IS THEREFORE ORDERED that this case is dismissed without prejudice.

Done at Frankfort, Kentucky, this 2nd day of September, 1999.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Helen C. Coffey". The signature is written in a cursive style with a large initial "H" and "C".

Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

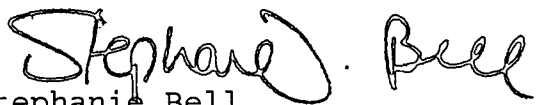
August 19, 1999

To: All parties of record

RE: Case No. 99-151

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,


Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorables Peter J.P. Brickfield
& James W. Brew
Attorneys at Law
Brickfield, Burchette & Ritts, P.C.
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P. O. Box 3500
Ashland, KY 41105 3500

Kentucky Power Company
1701 Central Avenue
Ashland, KY 41105

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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)	
COMPLAINANT)	
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v.)	CASE NO. 99-151
)	
KENTUCKY POWER COMPANY)	
)	
DEFENDANT)	

ORDER

Defendant having answered the Complaint and the Commission finding that issues of fact are in dispute and that a procedural schedule should be established to ensure the prompt resolution of this matter, IT IS HEREBY ORDERED that:

1. A formal hearing in this matter shall be held on November 23, 1999 at 9:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, and continuing until completed.

2. Each party may, on or before September 3, 1999, serve upon any other party an initial request for production of documents and written interrogatories to be answered by the party served within 14 days of service.

3. Each party may, on or before October 1, 1999, serve upon any other party a supplemental request for production of documents and written interrogatories to be answered by the party served within 10 days of service.

4. Each party may, on or before October 1, 1999, serve upon any other party a written request for admission, for purposes of this proceeding only, of the truth of any

matter relevant to this proceeding set forth in the request that relates to statements or opinions of fact or of the application of law to fact. The matter is admitted unless, within 10 days after service of the request, the party to whom the request is directed serves upon the party requesting the admission a written answer or objection. The form of the request for admission and the answer or objection thereto shall otherwise be governed by Kentucky Civil Rule 36.

5. Each party may, on or before October 15, 1999, take the testimony of any person by deposition upon oral examination pursuant to notice or by agreement.

6. On or before October 29, 1999, each party shall file with the Commission in verified form the direct testimony of each witness that it expects to call at the formal hearing.

7. On or before November 12, 1999, each party shall file with the Commission in verified form the testimony of each rebuttal witness that it expects to call at the formal hearing.

8. Direct examination of witnesses shall be limited to the authentication and adoption of that written testimony. No summarization of written testimony by the witness shall be permitted.

9. Witnesses who have filed written direct and rebuttal testimony shall present that testimony at the same sitting. Opposing parties may cross-examine such witnesses on both direct and rebuttal testimonies.

10. No opening statements shall be made at the hearing in this matter.

11. Any party may within 15 days of the filing of the hearing transcript with the Commission submit a written brief. Briefs shall not exceed 25 pages in length.

12. Copies of all documents served upon any party shall be served on all other parties and filed with the Commission.

13. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

14. To be timely filed with the Commission, a document must be received by the Secretary of the Commission within the specified time for filing except that any document shall be deemed timely filed if it has been transmitted by United States express mail, or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.

15. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

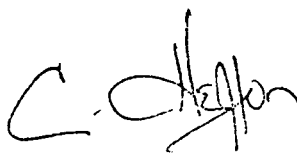
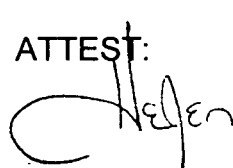
16. As the Complainant bears the burden of proof in this matter, its failure to appear at the formal hearing and to present proof in support of its Complaint may result in the dismissal of its complaint with prejudice.

17. The failure of Defendant to appear at the formal hearing may result in the entry of an Order granting the Complainant's requested relief.

Done at Frankfort, Kentucky, this 19th day of August, 1999.

By the Commission

ATTEST:



Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

August 2, 1999

To: All parties of record

RE: Case No. 99-151

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY 40601

Honorables Peter J.P. Brickfield
& James W. Brew
Attorneys at Law
Brickfield, Burchette & Ritts, P.C.
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Ashland, KY 41101

Kentucky Electric Steel, Inc.
P. O. Box 3500
Ashland, KY 41105 3500

Kentucky Power Company
1701 Central Avenue
Ashland, KY 41105

Complainant is a Delaware corporation that owns and operates a steel mini-mill in Ashland, Kentucky. The production processes used at this steel mill require large amounts of electricity. Consequently, the cost of electricity comprises a significant portion of the steel mill's total operating costs. Kentucky Power is the retail electric supplier that serves the Complainant's steel mill.

Complainant alleges, inter alia, that Kentucky Power does not possess sufficient generating capacity of its own to satisfy its load and is dependent upon other members of the AEP System and power purchases to meet its power requirements. Complainant further alleges that AEP is suffering from a capacity shortage and will be required to purchase additional peaking capacity. As a result of these developments, Complainant contends Kentucky Power will likely incur higher fuel costs that will be passed on to Kentucky Power customers through its fuel adjustment clause and will be required to curtail or interrupt service to its interruptible service customers.

Complainant further alleges that the proposed merger of AEP with CSW and the integration of both holding companies' systems will cause approximately 250 MW of capacity to be transferred from the existing AEP System to the existing CSW System. This transfer, Complainant alleges, will affect the reliability of Kentucky Power's present service and may increase the cost of service that Kentucky Power presently provides.

Administrative Regulation 807 KAR 5:001, Section 12(4), requires the Commission to review each formal complaint upon its filing to determine whether the complaint establishes a prima facie case. A complaint establishes a prima facie case when, on its face, it sets forth sufficient allegations that if uncontradicted by other evidence would entitle the complainant to the requested relief. If a complaint fails to establish a prima

facie case, the Commission must notify the complainant and provide a reasonable opportunity to amend the complaint.

Having reviewed the allegations contained in the Complaint, the Commission finds that they establish a prima facie case. Taking administrative notice of the proceedings in Case No. 99-149, the Commission further finds that the allegations related to the proposed merger of AEP and CSW have been rendered moot. In Case No. 99-149, the Complainant intervened as a party and entered into a settlement agreement with Kentucky Power, AEP, and others in which it agreed to recommend that the Commission approve the proposed merger under certain conditions. These conditions included, inter alia, restrictions on AEP and Kentucky Power's passthrough of fuel costs and savings to Kentucky Power ratepayers and protections for Kentucky Power ratepayers from any additional fuel costs resulting from the integration of the AEP and CSW transmission and generation systems. The Commission has accepted and approved this agreement.²

Accordingly, the Commission, pursuant to 807 KAR 5:001, Section 12, HEREBY ORDERS that:

1. Kentucky Power is to satisfy the matters complained of regarding the sufficiency of Kentucky Power's present generating capacity and its ability to provide reasonable and reliable service or to file a written answer to the complaint within 10 days from the date of service of this Order.

2. Should documents of any kind be filed with the Commission in the course of this proceeding, the documents shall also be served on all parties of record.

² Order of June 14, 1999.

Done at Frankfort, Kentucky, this 2nd day of August, 1999.

By the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

KENTUCKY ELECTRIC STEEL, INC. §
§
Complainant §
v. §
KENTUCKY POWER COMPANY §
§
Defendant §
§

Case No. 99-151

RECEIVED

APR 13 1999

PUBLIC SERVICE
COMMISSION

COMPLAINT

Pursuant to KRS 278.260, KRS 278.070, KRS 278.040 and KRS 278.030 and 807 KAR 5:001, Section 12, Kentucky Electric Steel, Inc. ("KESP") submits its Complaint to the Kentucky Public Service Commission ("Commission") against Kentucky Power Company, an affiliate of American Electric Power Company (hereinafter "AEP" or "Kentucky Power") and in support thereof states as follows:

1. That the Complainant is a corporation incorporated in the state of Delaware whose address is as follows:

Kentucky Electric Steel, Inc.
P.O. Box 3500
Ashland, Kentucky 41105-3500

2. Counsel for the Complainant is:

Richard S. Taylor
Attorney-at-Law
315 High Street
Frankfort, KY 40601

William H. Jones, Esq.
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

Peter J.P. Brickfield, Esq.
James W. Brew, Esq.
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West
Washington, DC 20007

3. That the Defendant is a public utility and retail electric supplier as defined in KRS 278.010 incorporated in the Commonwealth of Kentucky and whose address is as follows:

Kentucky Power Company
1701 Central Avenue
Ashland, KY 41105

4. Kentucky Power is a wholly-owned subsidiary of American Electric Power Company, a multi-state utility holding company headquartered in Columbus, Ohio. Kentucky Power is the exclusive supplier of retail electric service to approximately 170,000 customers, including Kentucky Electric Steel, in eastern Kentucky. The rates charged for electric service by Kentucky Power are set by the Commission pursuant to application of the utility, investigation by the Commission, or customer complaint.

5. Kentucky Electric Steel owns and operates a steel mini-mill in Ashland, Kentucky. The mill recycles steel from scrap. It uses electric arc furnaces to melt scrap, and recasts the molten steel in billets which are rolled into various bar and special bar quality products. This process requires very large amounts of electricity, and the cost of electricity comprises a significant portion of the facility's total operating costs. Also, steel markets

are intensely competitive. Consequently, profit margins for most products are very thin, and steelmakers must be able to produce and sell large volumes of their product to be economically viable. Chronic or frequent electric service disruptions due to poor utility reliability, adequacy of supply, or that are price induced, can be financially devastating.

6. Kentucky Power is required to provide adequate, efficient and reasonable service to its retail electric customers in Kentucky. KAR 278.030(2). To satisfy this responsibility, Kentucky Power is required to maintain installed generation capacity and firm capacity purchases sufficient to meet its expected peak system load plus required reserves.
7. Kentucky Power historically has provided KESI reliable and low cost electric service. KESI, however, is concerned that recent events and actions taken by or affecting AEP have or will dramatically alter AEP's available electric supply and the cost of purchasing power to serve Kentucky loads. These developments jeopardize both reliability and the cost of service. KESI is not uniquely situated. These factors, described below, are likely to affect all retail Kentucky Power consumers unless appropriate steps are taken by the Commission to safeguard the interests of Kentucky consumers. That is the relief requested in this Complaint.
8. Although it owns the Big Sandy coal-fired generating station in Louisa and receives a portion of the capacity of a coal-burning station in Rockport, Indiana under a Unit Power Agreement, Kentucky Power does not possess sufficient generating capacity of its own to satisfy its load.¹ It is dependent upon the other AEP systems and power purchases made by AEP to meet all of its power requirements.

¹ Kentucky Power, FERC Form 1 for year ending December 1997, p. 123-125.

9. American Electric Power centrally plans, operates, dispatches and maintains its generation and transmission system for each of the utility systems it owns today in Kentucky, Ohio, West Virginia, Michigan and Indiana. Through an intra-system agreement subject to oversight by the Federal Energy Regulatory Commission, Kentucky Power is allocated a ratable share of AEP fixed and variable system costs, including purchases and revenues from off-AEP system and market based wholesale sales.
10. As a system, AEP has disclosed that its capacity reserves are perilously low this year. On March 25, 1999, AEP confirmed reports that its 2,110 MW Cook Nuclear Plant in Michigan will not be in service during the summer of 1999.² It is not certain when, or for that matter if, either unit at the Cook station will return to commercial service. The Cook plant accounts for roughly 9% of AEP's generating capacity. Due primarily to the protracted Cook outage, AEP has issued a request for proposals for it to buy 1,100 MW of peaking capacity for this summer. AEP is also reportedly purchasing forward contracts for capacity this summer. The cost of such contracts in turn has been driven upward by the Cook outage. These circumstances likely will lead to higher charges to Kentucky consumers through adjustment clauses that are subject to Commission oversight.
11. The AEP capacity shortage also makes it likely that manufacturing customers receiving service under AEP interruptible service offerings will experience an excessive number of curtailments and interruptions this summer.
12. AEP has proposed merging with Central and South West Corporation, a public utility that serves electric consumers primarily in Oklahoma, Texas and Arkansas. AEP and CSW

² "Megawatt Daily" dated March 26, 1999; AEP corporate news release dated, March 25, 1999, AEP internet page.

have proposed to integrate their systems through a transmission arrangement that will allow approximately 250 MW of capacity to be transferred from AEP to the generally higher cost and capacity deficient CSW system. This arrangement suggests that under most circumstances, after serving native load, AEP will be providing its low cost power, including generation from Kentucky Power's Big Sandy unit, to CSW systems. From an operational cost perspective, it appears that the merger will produce fuel and purchase power cost savings to CSW but no cost savings to Kentucky customers. In fact, Kentucky Power and its customers likely will realize less revenue than if AEP had sold the same excess energy and capacity at market based rates. Such foregone revenues are a cost to Kentucky Power customers of the merger.

13. In testimony concerning the merger before FERC, AEP has estimated that merger costs will amount to \$298 million that it would like to recover over five years. Kentucky Power's projected share of those costs is roughly \$12 million. Thus, Kentucky consumers will be asked to bear merger transaction costs and forego revenues from incremental sales of power that will be diverted to lower CSW costs at a time when AEP's reliability and quality of service are declining due to insufficient operating capacity.
14. AEP claims in its FERC testimony that the merger will produce more than \$1 billion in non-production related savings. It is unclear where or how any of these claimed savings will reach Kentucky consumers.
15. AEP has indicated it intends to file for Commission approval of the merger. Pursuant to KAR 278.020(5), the Commission is required to determine, within 60 days of filing, if the proposal is lawful, is for a proper purpose and is consistent with the public interest. The real issues for Kentucky consumers concern whether the merger and other actions and

inactions of AEP threaten their continued access to reliable and low cost power. The merger is not in the public interest if costs allocated to Kentucky consumers are likely to increase while reliability decreases.


16. The Commission has led the efforts of low cost states to be heard effectively in the national debate on electricity restructuring. In effect, the AEP system is engaged in a large scale restructuring process now as a result of the proposed merger and AEP's market based sales activity.
17. There is no way to determine on a piecemeal basis whether AEP's actions will benefit or are detrimental to the interests of Kentucky consumers. KESI respectfully requests that the Commission investigate the adequacy of AEP's electric supply, the prudence of AEP's power purchasing and market based trading activities, and the effect that the proposed merger will have upon service reliability in Kentucky and costs charged to Kentucky consumers. This proceeding should require AEP to demonstrate:
 - a. that its existing resources are adequate to meet Kentucky's load requirements at a reasonable cost;
 - b. that unit outages or capacity deficiencies on other AEP systems will not create increased service interruptions or curtailments for Kentucky consumers;
 - c. that the AEP/CSW merger will produce direct benefits to all classes of Kentucky consumers and that in every year those tangible benefits exceed the costs charged to Kentucky Power's cost of service;

- d. that AEP will possess adequate generation capacity to serve AEP loads if the merger is concluded and the Cook units do not return to commercial service in the foreseeable future;
- e. that the merger does not cause increased charges to Kentucky consumers through operation of the fuel, system sales or other adjustment factors; and
- f. that market based wholesale sales by AEP will not result in increased charges to Kentucky consumers through base rates or the operation of adjustment clauses.

18. The Commission should proceed expeditiously on this Complaint given the serious concerns regarding the adequacy of AEP's generation supply. The Commission should establish a procedural schedule independent of any merger related filings by AEP requiring AEP to respond to this Complaint and which will allow reasonable opportunity for discovery, testimony, a hearing and submission of briefs.

19. **WHEREFORE**, KESI prays that the Commission require Kentucky Power to answer this Complaint, that it conduct a formal proceeding to examine the specific matters listed above, and that it issues such other relief and orders necessary and appropriate to safeguard the interests of Kentucky consumers in receiving adequate, reliable and reasonably priced electric service.

Respectfully submitted,

A handwritten signature in cursive script, reading "Richard S. Taylor", written over a horizontal line.

Richard S. Taylor
Attorney-at-Law
315 High Street
Frankfort, KY 40601

William H. Jones, Esq.
Vanantwerp, Monge, Jones & Edwards
1544 Winchester Avenue
Fifth Floor
Ashland, KY 41101

Peter J.P. Brickfield, Esq.
James W. Brew, Esq.
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor West
Washington, DC 20007

CERTIFICATE OF SERVICE

I hereby certify that the original and ten (10) copies of the foregoing complaint has been filed with the Public Service Commission at its offices at 730 Schenkel Lane, Frankfort, KY 40601 and that a true copy of the same has been mailed postage prepaid to the following:

Office for Rate Intervention,
Attorney General's Office
Commonwealth of Kentucky
1024 Capital Center Drive
Frankfort, KY 40601

Kentucky Power Company
1701 Central Avenue
Ashland, KY 41105

This 13th day of April 1999

A handwritten signature in cursive script, appearing to read "Richard S. Taylor", written over a horizontal line.

Richard S. Taylor
Attorney-at-Law
315 High Street
Frankfort, KY 40601

William H. Jones, Esq.
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1025 Thomas Jefferson Street, NW
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Washington, DC 20007



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

April 16, 1999

To: All parties of record

RE: Case No. 99-151
AMERICAN ELECTRIC POWER
(Complaints - Rates, Service) OF KENTUCKY ELECTRIC STEEL, INC.

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received April 13, 1999 and has been assigned Case No. 99-151. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,


Stephanie Bell
Secretary of the Commission

SB/jc

Honorable Richard S. Taylor
Attorney at Law
315 High Street
Frankfort, KY. 40601

Honorables Peter J.P. Brickfield
& James W. Brew
Attorneys at Law
Brickfield, Burchette & Ritts, P.C.
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

KENTUCKY ELECTRIC STEEL, INC. §
Complainant §
v. §
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Defendant §

Case No. 99-151

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PUBLIC SERVICE
COMMISSION

COMPLAINT

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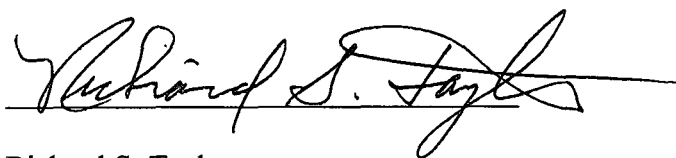
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18. The Commission should proceed expeditiously on this Complaint given the serious concerns regarding the adequacy of AEP's generation supply. The Commission should establish a procedural schedule independent of any merger related filings by AEP requiring AEP to respond to this Complaint and which will allow reasonable opportunity for discovery, testimony, a hearing and submission of briefs.

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Respectfully submitted,

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Richard S. Taylor
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CERTIFICATE OF SERVICE

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Office for Rate Intervention
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Commonwealth of Kentucky
1024 Capital Center Drive
Frankfort, KY 40601

Kentucky Power Company
1701 Central Avenue
Ashland, KY 41105

This 13th day of April 1999

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