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Environmental and Public
Protection Cabinet

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Mark David Goss
Chairman

John W. Clay
Commissioner

August 9, 2007

PARTIES OF RECORD

Re: Case No. 2007-00166

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Rick W. Bertelson at 502/564-3940, Extension 260.

Sincerely,

Beth O'Donnell
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: File

FROM: Rick Bertelson, Staff Attorney; Aaron Greenwell, Team Leader

DATE: August 9, 2007

RE: Case No. 2007-00166
Application of Kentucky Power Company for a Real-Time Pricing Pilot Program

On July 31, 2007, Commission Staff held an informal conference with Kentucky Power Co. ("Kentucky Power"), the Attorney General ("AG"), and Intervenor Kentucky Industrial Utility Customers, Inc. ("KIUC"). KIUC was represented by Kurt Boehm, who participated by telephone, as noted on the attendance sheet attached hereto. The purpose of the conference was to discuss Kentucky Power's application for a real-time pricing pilot program ("pilot program"). In its July 23, 2007 responses to the Attorney General's comments filed on July 12, 2007, Kentucky Power requested an informal conference in order to "further explain its position with respect to the Customer Baseline approach and answer any other questions from the Staff or parties."

At the beginning of the conference, Kentucky Power handed out copies of a graph labeled "Customer Usage Example" in order to facilitate discussion of their proposed tariff under the pilot program. A copy of the graph is attached hereto. Kentucky Power's representative identified the handout as a graphical representation of the data found in Kentucky Power's Responses to Commission Staff's First Set of Data Requests, Item 1, page 2 of 4. That data purports to show a sample bill under the pilot program, with a customer who has designated an 8,000 KWH load level. Kentucky Power explained that all usage under the designated load level would be subject to billing at their regular pricing, while all usage above the designated level, as shown in the shaded area above the line, would be subject to real-time pricing.

Kentucky Power stated that, in order to take advantage of the benefits of the pilot program, a customer could choose to shift its usage away from the times of day when prices are expected to peak, as based on the day-ahead market. Kentucky Power also noted that its "demand" rate is relatively high compared to its "energy" rate. So, there is a trade-off in how much energy load a customer can drop, as opposed to demand load.

Staff noted that Kentucky Power has 106 potential customers but only plans to engage 10 customers to participate in the pilot program. Staff questioned Kentucky Power about how it intended to select those 10. Kentucky Power stated that they will talk with the customers they believe are most likely to participate in the pilot program—

particularly industrial gas manufacturers, steel mills, scrap shredders, and other companies with similar electrical usage patterns. They will inform the customers about the details of the pilot program and will discuss with the customers how they can adjust their particular processes and operations in order to best take advantage of the pilot program.

The Attorney General expressed concern about customers having to sign up for the pilot program with a minimum designation of 100 kW. However, Kentucky Power explained that 100 kW is the lowest amount of power that PJM, Inc., its regional transmission organization, can sell in a transaction. Kentucky Power stated that, although the designations were in denominations of 100 KWH, a customer would not be charged for 100 kW if it used less than that amount—it would only be charged for the actual amount it used.

In his July 12, 2007 comments, the AG also expressed concern about the cost of the communication system that Kentucky Power will have to install in order to implement the program. Kentucky Power estimates that its costs for the system will be at least $100,000, a large portion of which will be for information technology ("IT") costs—primarily software programming. At the conference and in its July 23, 2007 responses, Kentucky Power stated that the actual administrative costs associated with the communication system will be approximately $100,000, while the customers will pay only $54,000[1] in fees. The Attorney General agrees that Kentucky Power's explanation provides a reasonable basis for the proposed $150-per-month administrative fee. Staff noted that the $46,000 deficit in administrative costs could be deferred but that Kentucky Power would need the Commission's approval. Kentucky Power explained that it anticipates making a determination on whether to defer in the near future.

The AG asked whether there was an alternative way to handle the communications system. Kentucky Power said that it is an Internet-based system, similar to what is used in Oklahoma but tailored to the characteristics of Kentucky Power's system. The company also noted that doing it in a non-automated fashion, such as having dedicated staff to telephone or e-mail customers hour-ahead pricing information, would likely be more expensive and challenging than using the Web-based application.

Staff noted that the AG's comments reflected a concern that Kentucky Power

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[1] This amount is calculated by multiplying 10 (participating customers) x 12 (months) x $150 (monthly program cost) x 3 (years).

could wheel the excess power it gains through the load reductions from the program into PJM. Since Kentucky Power can sell this power into the PJM market and will pass through its costs of purchasing the power designated by participants as subject to the tariff, the AG felt that some over-recovery could occur. Kentucky Power said that its ratepayers will get the benefit of incrementally lower prices for any power Kentucky Power might sell back into PJM. Kentucky Power also assured Staff and the AG that the power purchased to serve participants would not be included in its fuel adjustment clause and that the environmental surcharge and system sales charges would not be affected in a material amount by the pilot program.

With regard to additional customer education, Kentucky Power stated that customer education within the pilot program will be done by direct contact through its account representatives. Kentucky Power expressed concerns about having to share information between customers who may view energy-saving strategies as proprietary. Staff suggested holding an annual meeting of the customer participants to allow them to discuss their views of the pilot program and to allow them to share any information they feel appropriate about energy-saving strategies, thus alleviating Kentucky Power's concern with regard to revealing confidential business information. KIUC expressed interest in such meetings, and the AG and Kentucky Power agreed that such meetings might be helpful to the success of the pilot program.

In his comments, the AG also requested that Kentucky Power be required to collect and report a number of statistical data in addition to those proposed by the company. Kentucky Power stated in its response and at the conference that it has no objection to providing the additional information requested by the AG, subject to the caveats that Kentucky Power only be required to report information it can actually obtain from the customers and that they only have to report on an aggregate basis.

The AG was also concerned that Kentucky Power did not propose to use the Customer Baseline Load Approach ("CBL"), as have the other companies which have also submitted applications for pilot programs.[2] Kentucky Power believes that the CBL method is difficult to track and problematic for a variety of reasons, whereas allowing a customer to set its expected load and work around that expected load level is much more manageable. Kentucky Power said that another challenge with the CBL is that it doesn't recognize the impact on the capacity obligations which may negatively impact PJM's capacity charges next year for its parent company, American Electric Power. The

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[2] LG&E, 2007-00161; Big Rivers Electric Corp. and Kenergy Corp., 2007-00164; and EKPC, 2007-00165.

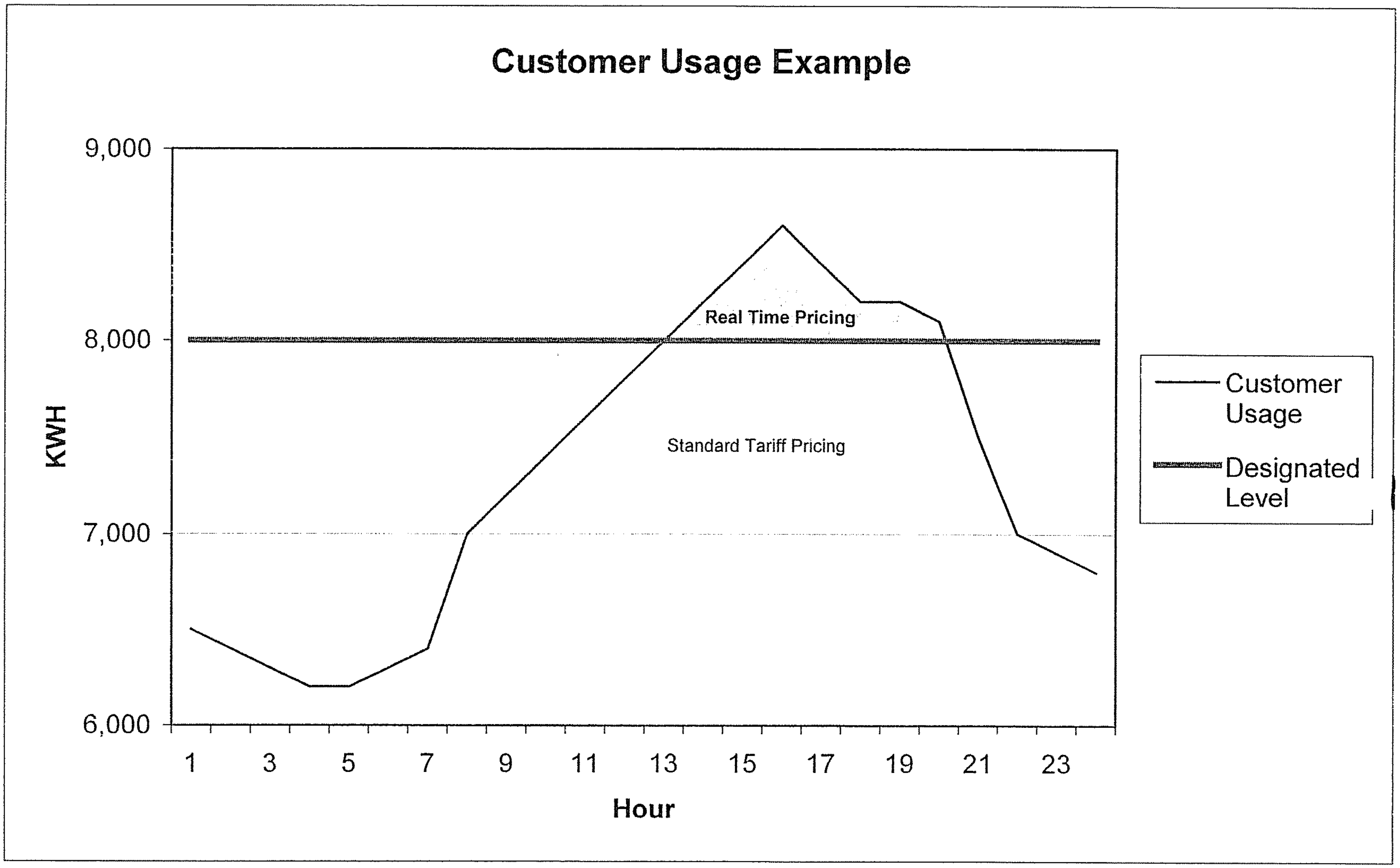
AG expressed concern that a customer might not be sophisticated enough to pick an accurate load level.

The parties then discussed the procedural schedule for the remainder of the case. None of the parties will file a request for a public hearing in the case. Staff stated that the informal conference memorandum would be issued within 10 days and that the parties would have 5 days to file comments to the memorandum, after which the Commission would take the case under submission. Thereafter, the informal conference was concluded.

cc: Parties of Record

Attachments: "Customer Usage Example" graph
Sign-In Sheet

2007-00166 IC 1/31/07



CASE NO. 2007-00166
KENTUCKY POWER'S PILOT REAL-TIME PRICING PROGRAM
INFORMAL CONFERENCE – JULY 31, 2007

NAME	REPRESENTING
Aaron Greenwell	Ky PSC - Financial Analysis
JEFF JOHNSON	KY PSC
David Roush	Kentucky Power
LARRY FOUST	Kentucky Power
Rick Bertelson	PSC - Legal
Ben Crittenden	Stites & Harbison - Ky Power
Daryl Newby	KY - PSC
Judi Willis	Kentucky Power Co
Errol K Wagner	KPCo
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Kurt Boehm - by telephone (513) 421-2255	KIUC
Paul Adams	OAG
ELIE RUSSELL	PSC