COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

FEB 12 2010

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

APPLICATION FOR APPROVAL OF RENEWABLE ENERGY PURCHASE AGREEMENT FOR WIND ENERGY RESOURCES BETWEEN KENTUCKY POWER COMPANY AND FPL ILLINOIS WIND, LLC.	))))))	Case No. 2009-00545

KENTUCKY POWER RESPONSES TO ATTORNEY GENERAL'S
FIRST SET OF DATA REQUEST

February 12, 2010

AFFIDAVIT

Errol K Wagner, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

Errol K Wagner

Errol K Wagner

Commonwealth of Kentucky	)	
	)	Case No. 2009-00545
County of Franklin	)	

Subscribed and sworn to before me, a Notary Public, by Errol K Wagner this 11th day of February 2010.

Judy K Rosquist

Notary Public

My Commission Expires January 23, 2013

AFFIDAVIT

Jay F. Godfrey, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

Jay F. Godfrey

State of Ohio)
)ss
County of Franklin)

Subscribed and sworn to before me, a Notary Public, by Jay F. Godfrey this 11th day of February 2010.

Barbara R. Pletcher
Notary Public

My Commission Expires October 1, 2013

BARBARA R. PLETCHER
NOTARY PUBLIC • STATE OF OHIO
Recorded in Franklin County
My commission expires Oct 1, 2013

AFFIDAVIT

Scott C. Weaver, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

Scott C. Weaver

State of Ohio)
)ss
County of Franklin)

Subscribed and sworn to before me, a Notary Public, by Scott C. Weaver this 11th day of February 2010.

Diane P. Reichle
Notary Public

My Commission Expires 12/12/2014

NOTARIAL SEAL STATE OF OHIO

Diane P. Reichle
Notary Public, State of Ohio
My Commission Expires 12-12-2014

Kentucky Power Company

REQUEST

If the PSC does not grant approval, or if either or both of the contracting parties decide not to pursue the contract, does the contract contain any type or sort of penalty clauses requiring Kentucky Power to pay any sums to the owners of wind farms and / or the transmission regulators / regional ISOs?

a. If so, identify the specific contract language, and please provide any and all applicable amount(s).

b. If so, identify whether the company will pass those costs to its shareholders, or it ratepayers.

RESPONSE

Under Article 6 of the contract, either Kentucky Power or the wind farm owner may, by notice to the other party, terminate the contract on or prior to September 30, 2010 if Kentucky Power, despite using commercially reasonable efforts, is unable to obtain a final, non-appealable order from the PSC approving the terms and conditions of the Renewable Energy Purchase Agreement (REPA) and authorizing Kentucky Power to recover all of the jurisdictional costs associated with this REPA through Kentucky Power Company Base Rates. Termination by either party for the foregoing reasons is without further financial obligation to either party. Except to this limited extent, neither party has a right "not to pursue" the contract.

WITNESS: Jay F Godfrey

Kentucky Power Company

REQUEST

Assuming KP receives regulatory approval, and assuming it proceeds with the contract, please state whether the company will incur any additional maintenance costs to its generating fleet when wind-generated power flows into its transmission / distribution grid. What additional costs will the company incur in order to insure reliability in the event it proceeds with the contract?

RESPONSE

At this time the Company does not anticipate any incremental generation related maintenance costs or reliability related costs associated with this contract.

WITNESS: Scott C Weaver

Kentucky Power Company

REQUEST

What type and amount of start-up costs will the company incur if it proceeds with the proposed contract? How and when does the company intend to pass these costs on to its customers?

RESPONSE

The contract rate the Company pays the developer is an all-in cost for a bundled product which includes energy, RECs and associated capacity. Any generator start-up costs, if any, are included in the contract rate. However, there are minimal one-time costs to Kentucky Power associated with the integration of the contract into the AEP-East portfolio, which are expected to be approximately $75,000. These specific costs are not included in the test year and will not be passed on to Kentucky Power customers.

WITNESS: Jay F Godfrey

Kentucky Power Company

REQUEST

If the company proceeds with the contract, will it incur any costs for locational marginal pricing ("LMP") associated with PJM transmission costs? If so, provide the best estimates for each year of the proposed contract. If the company will not incur any LMP costs, state in detail why not.

RESPONSE

It is expected that the company could incur both congestion and line losses. Both costs are the transmission-related components inherent in PJM's LMP and are associated with all generation types. However, no projections of these components have been made at this time.

WITNESS: Jay F Godfrey

Kentucky Power Company

REQUEST

Will KP seek any type of hedging for the costs to be incurred under the proposed contract? State to what extent the company investigated whether wind-generated power can be hedged. Do any other utilities utilizing wind-generated power employ any hedging tools? Discuss in detail.

RESPONSE

Regarding the wind energy contract, the time-of-day pricing built into the contract terms serves as a form of "hedging" for time-of-day price risk, and the variability associated with wind generation. The wind purchase serves as a hedge against environmental risk. Regarding hedging as it applies to AEPSC's prudent management of power positions in regard to serving the native load customer, which is a continuous process. In response to changing needs of generation, load, and market conditions, AEPSC, on behalf of Kentucky Power, engages in energy transactions, and hedges the output of its economic generation on an AEP East basis in order to serve the native load customers of Kentucky Power, and the other operating company members of AEP East, in the most cost-effective manner, taking into account the wind energy market as well as the overall wholesale energy market, and the factors that may affect conditions in those markets. The variability of wind energy is managed on an ongoing and forward basis along with other impacts, such as planned and unplanned outages and curtailments.

Kentucky Power cannot speak for other utilities, their hedging tools, or the degree and manner to which they hedge their native load obligations, including wind energy.

WITNESS: Jay F Godfrey

Kentucky Power Company

REQUEST

Assuming the PSC grants approval for the contract, and that KP proceeds with it, for each year of the contract period what percentage of the company's combined total electric service costs will be attributed to wind-generated power?

RESPONSE

The Company has not calculated the percentage the cost of the wind generation represents of the company's combined total electric service cost for each year of the contract.

Section V, Workpaper S-4, Page 46 in Case No. 2009-00459 of the Company's filing shows the net estimated KPSC jurisdictional annual cost of the 100 MW of wind generation is $14,479,700 (Line No. 5). Section V, Schedule 1 of the Company's filing demonstrates Kentucky Power is requesting a total annual revenue requirement of $645,423,318. Because the Company's total annual revenue requirement is based on the total annual cost-of service, the cost of the wind generation is 2.24% ($14,479,700/$645,423,318) of the Company's total annual cost-of-service.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Assuming the PSC grants approval for the contracts, and assuming KP proceeds with it, will the wind-generated power be used for peak power, base load or both?

RESPONSE

The wind energy will be used any time it is available.

WITNESS: Scott C Weaver

Kentucky Power Company

REQUEST

Provide the current differential for prices KP charges for on-system sales as opposed to amounts it receives for off-system sales.

RESPONSE

The accompanying attachment contains Page 4 excerpted from the December 2009 AEP East Interchange Power Statement. As shown therein, the price KPCo received for Primary Energy (i.e., on-system sales) was $27.16/MWh; the price KPCo received for External Energy Credits was $27.35/MWh.

WITNESS: Scott C Weaver

December 2009

SYSTEM ACCOUNT

SUMMARY OF ENERGY SETTLEMENT

		MWH		$	
		RECEIVED FROM POOL (MLR SHARE)	DELIVERED TO POOL (AS SUPPLIED)	CHARGE MEMBER A/C 555 (MLR SHARE)	CREDIT MEMBER A/C 447 (AS SUPPLIED)
I. AEP EXTERNAL ENERGY *					
ENERGY COST	APCO	816,849	905,586	31,169,396	36,536,917
RECOVERY AND MLR	KPCO	165,609	99,542	6,280,283	3,602,335
ALLOCATION FOR ALL	I&M	420,513	251,709	15,926,161	11,399,292
AEP SYSTEM	OPCO	478,140	748,979	18,387,317	25,221,844
DELIVERIES TO	CSP	410,401	285,696	15,791,327	10,794,096
NON-AFFILIATED COS.	AEP	2,291,512	2,291,512	87,554,484	87,554,484
ADJUSTMENT TO	APCO	(495,372)	(495,372)	(20,673,399)	(20,673,399)
PREVENT RECOGNITION	KPCO	(58,681)	(58,681)	(2,484,878)	(2,484,878)
OF SALES BY POOL	I&M	(157,621)	(157,621)	(7,049,597)	(7,049,597)
MEMBERS TO	OPCO	(281,136)	(281,136)	(10,844,476)	(10,844,476)
THEMSELVES	CSP	(162,804)	(162,804)	(6,890,047)	(6,890,047)
(PAGE 7)	AEP	(1,155,614)	(1,155,614)	(47,942,397)	(47,942,397)
SUBTOTAL	APCO	321,477	410,214	10,495,997	15,863,518
AEP EXTERNAL	KPCO	106,928	40,861	3,795,405	1,117,457
ENERGY	I&M	262,892	94,088	8,876,564	4,349,695
	OPCO	197,004	467,843	7,542,841	14,377,368
	CSP	247,597	122,892	8,901,280	3,904,049
	AEP	1,135,898	1,135,898	39,612,087	39,612,087
II. INTERNAL ENERGY AMONG POOL MEMBERS					
PRIMARY	APCO	1,765,519	0	46,536,286	0
ENERGY	KPCO	51,253	177,048	1,380,517	4,808,268
(PAGE 8)	I&M	4,817	470,539	132,449	9,845,561
	OPCO	0	2,200,821	0	60,544,584
	CSP	1,026,819	0	27,149,161	0
	AEP	2,848,408	2,848,408	75,198,413	75,198,413
ECONOMY	APCO	0	0	0	0
ENERGY	KPCO	0	0	0	0
(PAGE 9)	I&M	0	0	0	0
	OPCO	0	0	0	0
	CSP	0	0	0	0
	AEP	0	0	0	0
III. TOTAL SYSTEM ACCOUNT ENERGY					
(I + II)	APCO	2,086,996	413,993	57,032,283	16,131,474
	KPCO	158,181	218,535	5,175,922	5,971,499
	I&M	274,599	564,947	9,499,777	14,220,772
	OPCO	198,029	2,670,294	7,629,368	75,041,439
	CSP	1,274,416	124,452	36,050,441	4,022,607
	AEP	3,992,221	3,992,221	115,387,791	115,387,791

NOTE: (*) Source of data is "Summary - System Account Settlement for AEP System Deliveries" in the ECR#MLR report. The MWh and $ CREDIT AMOUNTS labeled "As Supplied" correspond to the MWh and COST columns associated with the "Total All Source Allocation". The MWh and $ CHARGE AMOUNTS labeled "MLR SHARE" correspond to the MWh and COST columns associated with the "Total All MLR Allocation". Not included are any demand charge portions of purchased power out-of-pocket costs allocated to AEP System deliveries (such demand costs would have no net effect in the System Account because they are incurred and allocated in identical MLR proportion, thus netting zero). Also, see NOTE (1), page 6.

Kentucky Power Company

REQUEST

Confirm that in the event the PSC grants approval for the contract, and assuming KP proceeds with it, when the wind-generated power enters the company's transmission / distribution grids, the power being generated by the company's own generation fleet in excess of its customers' needs will be sold in off-system sales.

RESPONSE

Renewable energy resources such as the wind energy purchase power agreement are dedicated resources. Energy output from these resources are assigned to a specific AEP operating company. As energy is received from the supplier, it displaces energy that would otherwise be used to serve the Company's native load requirement. This displaced energy may potentially be used to increase energy exchanges to other AEP companies or to increase off-system sales (OSS) levels for the Company.

WITNESS: Scott C Weaver

Kentucky Power Company

REQUEST

Will or could the PJM economic dispatch rules take precedence over the contract? Could any other PJM rules supersede the terms of the proposed contract? If so, could there be instances in which PJM will dictate that the wind farms' generation be directed elsewhere? If so, what types of costs will the company incur to replace that power?

RESPONSE

The contract states that the facility shall operate in a manner that complies with all PJM standards. Further the contract states that the Purchaser's contract capacity share of the facility shall be offered into PJM as "Must-Run Generation". Must Run Generation is defined by PJM as generation designated to operate at a specific level and not available for economical dispatch. The facility could be curtailed for reliability purposes by PJM. However in accordance with the contract, the company will not incur any additional costs for reliability curtailment.

WITNESS: Jay F Godfrey

Kentucky Power Company

REQUEST

Is the utility from which KP intends to purchase the wind-generated power a merchant, or does it have some regulated sales? If so, identify the agencies that regulate it. Will the laws of that jurisdiction have any control so as to supersede the terms under which the wind farm agrees to supply KP with wind-generated power?

RESPONSE

On information and belief, FPL Energy Illinois Wind, LLC (FEIW), is a merchant owner of generation and is not a utility with retail sales subject to state ratemaking authority. It is affiliated with other FPL Group companies, including other merchant owners of generation, as well as Florida Power & Light Company, an investor-owned electric utility serving approximately 4.5 million customer accounts in Florida.

The contract provides it is governed under the laws of the State of New York.

WITNESS: Jay F Godfrey

Kentucky Power Company

REQUEST

State whether FERC will have to approve any portion(s) of the proposed contract. If so, what could their decision(s) entail, and how long will those decisions take? Will there be any future financial ramifications if these contracts are subject to FERC?

RESPONSE

On information and belief, FPL Energy Illinois Wind, LLC (FEIW), as the holder of a tariff from FERC authorizing it to make sales of power at market-based rates (Docket No. ER10-0402-000), has elected to utilize its blanket authority under its market-based rate tariff to effectuate the sale of energy to Kentucky Power under the contract. Although the contract is subject to FERC jurisdiction, Kentucky Power is not aware of any further FERC approvals or future financial ramifications arising from FERC jurisdiction, based on the information available to it at the current time.

WITNESS: Jay F Godfrey