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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

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

KENTUCKY POWER COMPANY
REBUTTAL TESTIMONY AND EXHIBITS

April 30, 2010

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:

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

REBUTTAL TESTIMONY
OF
THOMAS M. MYERS

ON BEHALF OF
KENTUCKY POWER COMPANY

Filing Date: April 30, 2010

REBUTTAL TESTIMONY
OF
THOMAS M. MYERS
ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2009-00545

Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION?

A. My name is Thomas M. Myers. My position is Vice President Commercial & Financial Analysis for American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of American Electric Power, Inc (AEP). AEPSC supplies engineering, financing, accounting and similar planning and advisory services to AEP's eleven electric operating companies, including Kentucky Power Company ("Kentucky Power, KPCo or Company"). My business address is 155 West Nationwide Boulevard, Columbus, Ohio 43215.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

The purpose of my testimony is to respond to the off-system sales issues raised in the testimony filed in this case by Kentucky Industrial Utility Customers (KIUC) Witness Lane Kollen.

Q. DO YOU AGREE WITH MR. KOLLEN'S DESCRIPTION OF THE LINK BETWEEN THE WIND CONTRACT AND KPCO'S OFF-SYSTEM SALES MARGINS ON PAGE 9, LINES 4-13 OF HIS TESTIMONY?

A. No I do not. While the proposed wind PPA would likely have an overall positive impact on OSS margins, the amount of that impact is uncertain. On page 9, lines 4-13, Mr. Kollen asserts that if the Commission approves the wind contract, the purchases will result in increased off-system sales to the AEP pool that in turn will increase the Company's off-system sales margins. Mr. Kollen refers to the Company's responses to KIUC 1-2 and 1-3 in support of his statement. However, if the Company's responses are read in their entirety, a simple "1 for 1" relationship between the additional wind MWhs and total OSS margins is not an accurate assumption. Mr. Kollen misunderstands the Company's response in that he fails to take into account the many variables that will ultimately determine to what degree the wind contract will impact KPCO's off-system sales margins.

The Company's response to KIUC 1-2 states:

> 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.

As the Company's response to KIUC 1-2 points out, the energy displaced by the wind contract may potentially be used to increase energy exchanges to other AEP companies. Such affiliate energy exchanges are governed by the AEP East Pooling Agreement and would not be subject to the sharing provisions of either the existing or proposed System Sales Clause.

The response to KIUC 1-3 states:

> Sales margins are influenced by many factors, many of which are outside the control of the Company. However, to the extent additional energy is available at times for off-system sales as a result of the Company entering into the Wind PPA, those sales may be from Company sources that would not have been available for off-system sales had the wind PPA not been executed. As a result, off-system sales margins may be increased as a result of the Company receiving additional energy from the wind PPA.

In addition to the affiliate impacts mentioned in KIUC 1-2, the response to KIUC 1-3 points out that KPCO's OSS margins are influenced by many factors, with the additional MWhs resulting from the wind contract being just one of the variables. A 1 MWh increase from the wind contract does not translate into a 1 MWh increase in KPCO OSS margins.

Q. PLEASE DESCRIBE SOME OF THE OTHER FACTORS THAT CAUSE UNCERTAINTY REGARDING THE IMPACT OF THE WIND CONTRACT ON KPCO'S TOTAL OSS MARGINS.

A. There are periods of time when we are a net purchaser across the AEP East companies to meet internal load obligations. During these periods, the wind contract will not benefit OSS margins, but will instead offset third-party purchase for internal load. It is difficult to forecast when these conditions will occur as several factors impact our energy position. These include such factors as internal load and generation output.

Q. DO YOU AGREE WITH MR. KOLLEN'S ATTEMPT TO LINK THE STRUCTURE OF THE SYSTEM SALES CLAUSE WITH THE REQUEST FOR APPROVAL OF THE WIND CONTRACT?

A. No I do not. One of the fundamental keys to the success AEPSC has had in optimizing OSS margins is that the resources and obligations of KPCO, together with the other AEP operating companies, are managed as a portfolio. Whatever OSS margins may result from the approval of the wind PPA, those margins will be enhanced by the integrated nature of AEPSC's optimization activities. The treatment of those margins should be determined based on a holistic evaluation of how AEPSC optimizes all of KPCO's OSS margins.

Mr. Kollen appears to be suggesting that the company's OSS optimization activity and the equitable level of sharing between the company and the customers should be uniquely tailored to each of the company's individual assets and resources used in providing electric service. Such an approach is impractical and counterproductive. The approval of the wind PPA and the appropriate structure of the System Sales Clause are two distinct issues and should be treated as such.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

AFFIDAVIT

Thomas Myers, 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.

Thomas Myers

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

Subscribed and sworn to before me, a Notary Public, by Thomas Myers this 28th day of April 2010.

Barbara R Pletcher
Notary Public

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

My Commission Expires October 1, 2013

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BEFORE THE PUBLIC SERVICE COMMISSION

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REBUTTAL TESTIMONY
OF
MARC D. REITTER

ON BEHALF OF
KENTUCKY POWER COMPANY

Filing Date: April 30, 2010

REBUTTAL TESTIMONY
OF
MARC D. REITTER
ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2009-00545

Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION?

A. My name is Marc D. Reitter and my business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by American Electric Power Service Corporation (AEPSC) as Manager of Corporate Finance. AEPSC supplies engineering, financing, accounting and similar planning and advisory services to AEP's eleven electric operating companies, including Kentucky Power Company ("Kentucky Power, KPCo or Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

The purpose of my testimony is to respond to confidential exhibit LK-10 filed in this case by Kentucky Industrial Utility Customers (KIUC) Witness Lane Kollen.

Q. DOES THE COMPANY INTEND TO ASK FOR ADDITIONAL REVENUE RELATED TO THE IMPUTED DEBT CALCULATION?

A. No. The Company does not intend to ask for additional revenue related to an imputation of debt for the wind farm purchase power agreement (PPA). As I will describe below, only Standard & Poors (S&P) calculates an imputed debt related to wind farm PPA's and given their methodology on holding company ratings, it is not necessary for KPCo to offset that imputation with additional equity.

Q. DO ALL OF THE RATING AGENCIES IMPUTE DEBT FOR WIND FARM POWER PURCHASE AGREEMENTS (PPAs)?

A. No. Generally only S&P will impute debt for a wind farm PPA. There is no imputed debt by either Moody's Investor Service (Moody's) or Fitch Ratings (Fitch).

Q. PLEASE DESCRIBE HOW MOODY'S AND FITCH TREAT PURCHASE POWER AGREEMENTS (PPAs).

A. Moody's addressed PPAs in its August 2009 Ratings Methodology update. In that update, Moody's indicated that each particular circumstance may be treated differently by Moody's. However, to the extent there is pass-through capability of the cost of purchasing power under the PPAs to their customers, "Moody's regards these PPA obligations as operating costs with no long-term debt-like attributes." It is reasonable to assume that a Commission approved contract in base rates has pass-through of those costs and would be treated as an operating cost. Many PPAs are also considered leases by the accounting rules, in which case Moody's will impute debt, but that is not the case for this contract.

Fitch addressed PPAs in 2006 and indicated that it occasionally treats an energy contract as debt-equivalent when all of the following three conditions are met:

(1) the contract is material to the company's cash flow

(2) the contract price is significantly above market value

(3) the buyer has a low likelihood of recovering the contract cost through the regulatory process.

This particular renewable energy purchase agreement is not material to KPCo and consequently violates one of Fitch's debt equivalency conditions.

Q. DOES S&P TREAT PPAs DIFFERENTLY?

Yes. S&P does impute debt for PPAs, including wind farms. The S&P analysis starts with the NPV of the capacity payments under the contract. Since wind farms have no capacity payment, S&P uses a proxy for the capacity charge. The proxy capacity charge used by S&P is currently 50% of the forecasted cost of the contract. Then S&P applies a risk factor to the NPV of capacity payments and that risk factor varies between 25% - 50% to determine the debt imputation. Mr. Kollen's assumption of a 30% risk factor is consistent with S&P's methodology.

Q. WHY IS THE COMPANY SAYING THAT IMPUTED DEBT IS NOT NECESSARY FOR THIS WIND FARM GIVEN THE S&P TREATMENT OF THE CONTRACT?

A. S&P takes a family view of ratings of the AEP system, which differs from the company specific methodology of Moody's and Fitch. S&P evaluates the risk profile and financial metrics of the entire system to determine a family credit rating which is then applied to all the utilities. So, while a meaningful contract such as one for a baseload unit could drive an overall capitalization change and perhaps debt imputation by the other rating agencies, it is not necessary for this PPA. Moreover, even a debt imputation for this contract by one rating agency would not have a great enough effect to drive a change in the capitalization and a resulting revenue requirement for KPCo.

Q. IS MR. KOLLEN CORRECT IN HIS ANALYSIS OF S&P's TREATMENT OF IMPUTED DEBT ASSOCIATED WITH PPAs IN CONFIDENTIAL EXHIBIT LK-10?

A. No. There are miscalculations in Mr. Kollen's analysis of the imputed debt treatment by S&P of PPAs. First, he disregarded using a 50% proxy capacity factor for the wind farm

PPA, furthermore, Mr. Kollen assumed a 50/50 capital structure for KPCo. Revising his Confidential Exhibit LK-10 by applying the S&P 50% proxy capacity factor reduces the NPV of the revenue requirement to $105.7 million and the resulting imputed debt amount to $31.7 million. Then using the equity percentage filed in the case, results in a revenue requirement of $4.6 million.

Q. WHAT IS YOUR CONCLUSION?

A. KPCo is not seeking additional revenue based upon the imputed debt, if any, associated with the wind PPA. Moreover, although the modification of KPCo's capital structure in conformity with S&P's methodology would result in an annual revenue requirement of $4.6 million for the Company, it is not necessary for KPCo to make any adjustment to its capital structure as a result of the PPA. The size of the contract, the family approach of ratings used by S&P, and the differing approaches to contracts of this sort by Moody's and Fitch makes it unnecessary for the Company to impute debt for this contract.

AFFIDAVIT

Marc D. Reitter, 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.

Marc D. Reitter

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

Subscribed and sworn to before me, a Notary Public, by Leslye Creek this 29th day of April 2010.

Notary Public

NOTARIAL SEAL STATE OF OHIO

Leslye R. Creek
Notary Public, State of Ohio
My Commission Expires 03-17-2014

My Commission Expires

COMMONWEALTH OF KENTUCKY

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REBUTTAL TESTIMONY
OF
SCOTT C. WEAVER

ON BEHALF OF
KENTUCKY POWER COMPANY

Filing Date: April 30, 2010

REBUTTAL TESTIMONY
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CASE NO. 2009-00545

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REBUTTAL TESTIMONY OF
SCOTT C. WEAVER
ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION?

A. My name is Scott C. Weaver, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by the American Electric Power Service Corporation (AEPSC) as Managing Director-Resource Planning and Operational Analysis. AEPSC supplies engineering, financing, accounting and similar planning and advisory services to AEP's eleven electric operating companies, including Kentucky Power Company ("Kentucky Power, KPCo or Company").

Q. ARE YOU THE SAME SCOTT C. WEAVER WHO FILED DIRECT TESTIMONY ON BEHALF OF KPCO IN THIS CASE?

A. Yes.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I have reviewed the testimony filed in this case by Kentucky Industrial Utility Customers (KUIC) Witness Lane Kollen and will address certain points he has raised regarding the following issues and topic-areas:

- The fact that the life cycle costs associated with the LDWEC REPA are "least-cost" when compared to other supply-side resources;

- the possibility of other (renewable) options availing themselves to the Company in lieu of the wind energy emanating from the LDWEC REPA in the timeframe required, or at a lower cost;
- the prospect of the enactment of either Kentucky or Federal renewable mandates;
- the attendant prospect that any such state Renewable Portfolio Standards (RPS) enacted would be restricted to in-state renewable resources only;
- the "need" for the renewable energy from the Lee Dekalb Wind Energy Center (LDWEC) that is associated with the proposed Kentucky Power Company Renewable Energy Purchase Agreement with FPL Energy Illinois Wind, LLC ("the REPA", or REPA), was based *not* on specific requirements as set forth under the AEP Interconnection Agreement, but rather on the Company's position around the establishment of a renewable energy portfolio;
- the fact that there would be no incremental transmission costs associated with the energy received from the proposed REPA;
- the reality that the forecast of energy pricing utilized in the economic analysis of this wind PPA did proxy a PJM Locational Marginal Price (LMP), and, finally;
- the conclusion that there are incremental benefits associated with the LDWEC REPA, rather than its representation by Mr. Kollen as causing "harm" to KPCo's customers.

Q. WERE THE EXHIBITS OFFERED TO SUPPORT THIS REBUTTAL TESTIMONY PREPARED BY YOU OR BY SOMEONE UNDER YOUR SUPERVISION?

A. Yes.

III. OTHER RESOURCE OPTIONS AND COSTS

Q. MR. KOLLEN STATES ON PAGES 6 AND 7 OF HIS TESTIMONY THAT THE COMPANY HAS PROVIDED NO EVIDENCE THAT THE COSTS ASSOCIATED WITH THE LDWEC PPA ARE LEAST-COST. IS THAT A TRUE STATEMENT?

A. No it is not. As described in the very discovery response Mr. Kollen identifies—KIUC 1-17, represented as Exhibit LK-4), the Company set forth Exhibit JFG-3 which clearly represented that the offer that served as the basis for the LDWEC REPA, when compared to other renewable offers received from the same solicitation discussed by Company witness Godfrey in his direct testimony, was indeed the least-cost renewable alternative offered. Further, my direct testimony indicates that under the reasonable assumption that a federal RPS will evolve, the least-cost option to achieve such mandates would be the LDWEC REPA when compared to the cost of acquiring RECs.

Moreover, the company provided information in response to discovery in the Company's rate case proceeding (Case No. 2009-00459), specifically, KIUC 1-15 and KIUC 2-1, that was not mentioned by Mr. Kollen. That response, reproduced here as Exhibit SCW-1R, compares and contrasts the levelized (life cycle) cost of electricity (COE) of the LDWEC REPA *versus* a range of levelized COE for both natural gas combined cycle (NGCC) and natural gas combustion turbine (NGCT) resource options, each represented on a "$ per Mwh" (generated) basis. The resulting Exhibit SCW-1R chart shows that under a high utilization (i.e. high capacity factor) view of either of those natural gas facility options—which of course would tend to reduce the "per Mwh" cost—in all cases the LDWEC REPA levelized life cycle cost would be the least-cost option.

Q. DOES MR. KOLLEN SUGGEST OTHER OPTIONS IN THE EVENT SUCH RENEWABLE STANDARDS ARE ENACTED?

A. Yes he does. Beginning on page 8 of his direct testimony, he indicates that the Company has identified "other options" in the form of biomass co-firing at existing KPCo generating units as well as the purchase of renewable energy certificates.

Q. WOULD YOU PLEASE ELABORATE ON THOSE ADDITIONAL OPTIONS?

A. Yes. As also previously indicated in my direct testimony in this case, while the notion of biomass co-firing at existing KPCo units—such as its Big Sandy and Rockport facilities—may be plausible, each has not been considered until the 2015 and 2013 timeframe, respectively, in the Company's indicative planning. This is necessary to afford time for the required pulverizer and boiler testing of various biomass feedstock options, as well as to address feedstock availability/supply issues and options.

As far as renewable energy certificates being utilized as an "option", Mr. Kollen failed to recall that my direct testimony in this case did offer a comparison of the estimated incremental costs associated with the LDWEC REPA versus the projected costs of RECs.[1] As further indicated on page 22 of my direct testimony it would:

> "...suggest that these incremental or "net" costs of the LDWEC project are indeed anticipated to be lower than, alternatively, acquiring RECs alone. Plus, possessing the renewable energy offered by the project offers KPCo with the further, non-quantified societal benefit of a more environmentally-friendly generation portfolio."

Q. AS IT PERTAINS TO A BIOMASS RENEWABLE OPTION, WHAT ADDITIONAL COST INFORMATION IS NOW AVAILABLE THAT WOULD CONTRAST IT WITH THE COST OF THE LDWEC REPA?

A. The Company has provided a Supplemental response to Attorney General request 2-3. That Supplemental response—describing cost estimates associated with a proposed biomass development project in Kentucky—is included as part of this rebuttal testimony as Exhibit SCW-2R and further demonstrates the relative benefits of the LDWEC contract.

[1] Exhibit SCW-3, col. "L" versus col. "M" ; from Weaver Direct Testimony in Case No. 2009-00545

IV. INCREMENTAL RTO-PJM COSTS

Q. DOES MR. KOLLEN DRAW AN INCORRECT CONCLUSION BY SUGGESTING THAT THE ECONOMIC EVALUATION OF THE LDWEC PPA SHOULD HAVE CONSIDERED "TRANSMISSION" COSTS? IF SO, WHY?

A. Yes, his conclusion is in error. AEP or the Company would incur no incremental transmission costs associated with the energy received through the LDWEC REPA. First, under Section 5.3(B) of the REPA, it specifies that the:

> "Seller shall be responsible for all interconnection, electric losses, transmission and ancillary services arrangements and costs required to deliver Purchaser's Contact Capacity Share of the Renewable Energy from the Facility to Purchaser at Point of Delivery. Purchaser shall be responsible for all electric losses, transmission and ancillary services arrangements and costs required to receive Purchaser's Contract Capacity Share if the Renewable Energy at the Point of Delivery and deliver such Energy to points beyond the Point of Delivery"[2]

So while Mr. Kollen is essentially correct by stating on page 8 of his testimony that the "contract provides for delivery near the wind farm site and the purchaser is responsible for transmission", he errors in presuming there would be a cost for this transmission within PJM to any such points *beyond* this Point of Delivery. Rather, the energy associated with this transaction received by Kentucky Power at the (PJM) delivery point would be ascribed PJM Network Integration Transmission Service (NITS) status. It should *not* be confused with a "point-to-point" service along a unique source-to-sink transmission path that would be reserved under, and payable through, the PJM-OATT. As a NITS transaction, the energy would flow from the established (LDWEC) generation node at no additional cost to

[2] "Point of Delivery" being defined under the REPA as "...the electric interconnection point... at which point the quantities of Renewable Energy and Ancillary Services delivered are recorded and measured by the Interconnection Provider's [PJM] revenue meters."

the energy purchaser and transmission owner/customer, Kentucky Power. Therefore, the costs of the LDWEC REPA as represented in my original Exhibit SCW-3—representing a purchase cost for a delivered product (into PJM)—is then effectively inclusive of "transmission costs".

Q. LIKEWISE, DO YOU AGREE WITH MR. KOLLEN'S CLAIM THAT THE COMPANY'S REPRESENTATION OF LDWEC-RELATED COSTS PROVIDED IN EXHIBIIT SCW-3 DOES NOT INCLUDE THE COSTS OF PJM CONGESTION AND LINE LOSSES?

A. No I do not. As represented in Exhibit SCW-3, the Company considers certain relative variable costs/(credits), including those that would flow through AEP Pool Energy Settlements. As part of this computation, the Company accounts for the expected revenues its generating sources will receive from PJM in the form of Locational Marginal Price (LMP). In modeling these revenues, the company applies a proxy price that represents PJM LMP. Since the proxy price emulates PJM's LMP, it considers *all three* LMP components: Energy, Congestion and Line Losses.

V. RENEWABLE RESOURCE MANDATES

Q. ON PAGE 4 OF HIS TESTIMONY, MR. KOLLEN STATES, "THERE IS SIGNIFICANT UNCERTAINTY AS TO WHETHER THERE EVER WILL BE A FEDERAL OR KENTUCY LEGISLATIVE MANDATE TO ACQUIRE SUCH RESOURCES AND THE COMPANY DOES NOT CLAIM OTHERWISE." DO YOU AGREE WITH MR. KOLLEN?

A. No. As reflected on page 11 of my direct testimony, I indicate mandatory RPS requirements "…are likely to be required at the federal level." I testify that H.R 2454

(Waxman-Markey Bill) that was passed by the U.S. House included a federal renewable energy standard (RES); and that the U.S. Senate's Energy and Natural Resources Committee passed out of that committee S. 1462 (Bingaman Bill) which likewise included an RES, with the latter enjoying bi-partisan support. Such ultimate RPS/RES legislation could be part of either a fully-comprehensive set of "climate change/greenhouse gas" legislation or, potentially, as a unique "carve-out" component of a federal energy bill. It also bears pointing out that 29 other states and the District of Columbia currently have mandated renewable portfolio standards ranging from 10-33 percent of sales. (See Exhibit SCW-3R "(State) Renewable Portfolio Standards", April 2010) [3].

Moreover, the Commonwealth of Kentucky is actively addressing the prospect of an RPS requirement. In addition to Kentucky H.B. 3 highlighted by Mr. Kollen, H.B. 408 also sets forth the very real prospect for such mandates. Although neither bill has passed, given the on-going support for such legislation from the Commonwealth's executive branch based on Governor Beshear's late-2008 energy plan for the development of diverse and clean energy resources: *"Intelligent Energy Choices for Kentucky's Future*", it is also very plausible to assume that the Commonwealth would join the nearly 30 states across the U.S.—including states contiguous to Kentucky: Illinois, Ohio, and West Virginia—that have adopted such mandated renewable energy standards.

Q. MR. KOLLEN ALSO SUGGESTS THAT THE LDWEC CONTRACT WOULD NOT QUALIFY AS A RENEWABLE RESOURCE UNDER H.B. 3. DO YOU AGREE WITH THAT PROSPECT?

[3] http://www.dsireusa.org/summarymaps/index.cfm?ee=1&RE=1

A. No. Ultimately, I believe any such state-specific mandates that could emerge in the Commonwealth of Kentucky would not seek to be prescriptive to Kentucky-sourced renewable energy only. To do so could both greatly limit the opportunity for such clean energy opportunities and potentially severely increase the cost of those opportunities to Kentucky's electricity consumers.

First, Section 6(3) of H.B. 408, which was not cited by Mr. Kollen, provides that "…renewable energy that is generated or purchased by the retail electric supplier from a generational facility that became operational before the effective date of this Act may be used to comply with the renewable portfolio standard requirement for that supplier." I would interpret this as suggesting that transactions such as the LDWEC project would potentially *not* be excluded.

Second, <u>each</u> of the neighboring states to Kentucky that currently have mandated renewable energy standards (Illinois, Ohio and West Virginia) have provisions that *do* allow use of "out-of-state" renewable energy to achieve their respective RES:

- Ohio: S.B. 221 (4928.64 (B)(3)): States that up to one-half must be from in-state (Ohio) renewable resources, while "… the remainder shall be met with resources than can be shown to be deliverable into this state."
- West Virginia: H.B. 103 (S 24-2F-4 (b)(1)): States that such renewable facilities must be located within the geographical boundaries of West Virginia, *or* located outside of West Virginia, but within the service territory of the regional transmission organization that manages the transmission system in any part of this state (i.e. sourced from any of the thirteen interconnected states served by PJM).
- Illinois: Public Act 0-5-0481; S.B. 1592 (Sec 1-75 (c)(3)): States that for the period prior to 6/2011 out-of-state renewable sources are

> allowed only if insufficient "cost effective" resources are available in-state. After 6/2011, both in-state *and* sources outside of Illinois --but that "adjoin" Illinois-- may be counted in meeting the state renewable standard. If still insufficient "cost effective" resources available, renewable energy "...shall be purchased elsewhere and shall be counted towards compliance."

Third, given this, I find it unlikely that the Commonwealth of Kentucky would pass legislation that could effectively disadvantage its electricity consumers from a "cost-to-comply" perspective through the establishment of such a limitation on the renewable portfolio of its electricity service providers by effectively building a fence around the state. Moreover, although I am not a legal expert, I have been advised by the Company's legal counsel that state legislative action that would place such restrictions on renewable energy sourcing could violate the "commerce clause" from the United States Constitution and its application to interstate commercial transactions. From the perspective of a resource planner, this would be akin to denying the ability of Kentucky coal producers to export their energy product for use in Ohio generating facilities.

Finally, Mr. Kollen fails to acknowledge that any *federal* RPS requirements placed upon retail electricity providers would clearly be met via ubiquitous, nation-wide sourcing of (physical) renewable energy and/or Renewable Energy Certificates (RECs).

Q. WHAT ADDITIONAL INFORMATION COULD YOU OFFER TO SUPPORT THE VIABILITY OF KENTUCKY-BASED RENEWABLE GENERATION RESOURCES TO FULLY ACHIEVE ANY POTENTIAL KENTUCKY RPS?

A. Through discussions with the Company's renewable energy expert witness, Jay Godfrey, he informs me he is aware of no renewable project—be it wind, solar, biomass, incremental hydro, geothermal, or landfill gas—that is currently under advanced development or construction within the Commonwealth, other than the biomass development project previously mentioned in this testimony and referenced as within Exhibit SCW-2R.

VI. RENEWABLE RESOURCE NEED

Q. PLEASE EXPLAIN WHY THE ENERGY ASSOCIATED WITH THE LDWEC PPA IS CRITICAL FOR KENTUCKY POWER'S RESOURCE PORTFOLIO IN SPITE OF MR. KOLLEN'S CONTENTION THAT THE COMPANY HAS NO "NEED" FOR THIS ENERGY.

A. The fact is that Mr. Kollen has ignored the basic thrust of my direct testimony in this case which clearly demonstrates the importance of Kentucky Power positioning itself for the likelihood of a state or federal renewable portfolio standard. As stated in detail, the Company and its AEP parent take this prospect very seriously and is attempting to position itself to take advantage of pricing for such renewables resources—pricing advantages that will also likely dissipate once such RPS mandates do come to pass—by setting forth a system-wide strategy that established a goal to obtain an incremental 2,000 MW of renewable energy resources by the end of 2011; a prospect that was included in the externally-published AEP *2009 Corporate Sustainability Report*.[4] Although KPCo's initial contribution to the attainment of that goal would be manifested in this LDWEC REPA, all of the other AEP affiliate operating companies with generation have previously entered into comparable REPA transactions such that nearly *one-half* of this goal has currently been met.

[4] Available at http://www.aep.com/citizenship/crreport/docs/CS_Report_2009_web.pdf

I summarize this very issue around "need" beginning on page 18 of my direct testimony in this case when I respond to the following question:

> "KPCO'S OVERALL RENEWABLE PLAN WOULD ADD RENEWABLE RESOURCES TO AN ELECTRIC UTILITY OPERATING IN A STATE—KENTUCKY—WHICH CURRENTLY HAS NO RENEWABLE PORTFOLIO STANDARD. WHY THEN IS THE ATTAINMENT OF SUCH RENEWABLE RESOURCE AMOUNTS NECESSARY, AND HOW CAN THAT BE CONSIDERED TO BE IN THE BEST INTERESTS OF THE CUSTOMERS OF KPCO?"

...and my unwavering response from that same testimony is:

> "...the relative cost of electricity inclusive of the LDWEC wind generation under consideration, **is competitive with alternative resources available to KPCo**. Second, with the current federal PTCs for wind development now set to expire at the end of 2012, it would be anticipated that **the costs of wind projects placed into service <u>after</u> that expiration date will significantly increase**. As more fully discussed in the testimony of Company Witness Godfrey, **by acting now to secure wind contracts, KPCo is locking in wind energy at a relatively low cost**. Third, under the very reasonable prospect that a federal renewable energy standard will become law—whether included as a component of more comprehensive GHG legislation, or carved-out under separate legislation—**demand for renewable resources including wind energy will undoubtedly increase, further driving up the costs to KPCo's customers over the long-term.**
>
> Therefore, the development of a KPCo plan to add sufficient renewable resources prior to the expiration of the PTCs could serve to **mitigate KPCo's customers' exposure to the cost risks associated with such potential federal renewable energy and/or GHG legislation**.
> *(emphasis added in bold-face type for purposes of this rebuttal testimony)*

In fact, Mr. Kollen fails to recognize the criticality of the planning issues around renewable resources when he discusses the overall "need" issue. By placing his head in the sand by simply pointing to KPCo's current energy position within the AEP Interconnection Agreement as the suggested basis for such (wind) energy need, he does a disservice to the very constituents he represents by exposing them to significant cost exposures upon the enactment of such renewable standards.

VII. SUMMARY AND CONCLUSION

Q. LASTLY, MR. KOLLEN SUGGESTS THAT THE LDWEC REPA WOULD "HARM" KPCO RATEPAYERS. IS THAT AN ACCURATE STATEMENT?

A. No it is not. Based on the facts set forth in both my direct and rebuttal testimonies, it would suggest just the opposite; that Kentucky Power's customers will benefit by the foresight to be an early-mover in the acquisition of very attractive and competitively-priced, carbon-free renewable resources represented by the LDWEC REPA.

In fact the ratepayer "harm" mentioned by Mr. Kollen that he claims is quantified on Exhibit SCW-3 of my direct testimony is totally unfounded. As I indicate, the LDWEC REPA would have an order of magnitude impact of 0.07 (seven one-hundredths) of a cent per kWh effect on KPCo's costs over the period represented on the exhibit (col J), but that would <u>exclude</u> the consideration of the costs of RECs that could be borne by KPCo customers if required *in lieu of* this LDWEC wind energy. As previously discussed, that comparison clearly demonstrates that eschewing the inclusion of wind energy in the Company's generation portfolio by doing-nothing and effectively becoming a "price-taker" for RECs, would represent the higher-cost option.[5] Finally, under the further notion that available REC markets could potentially be extremely illiquid, particularly in any initial years of an RPS period, it would further suggest that such REC pricing could be very volatile subjecting KPCo's customers to unnecessary price uncertainty.

For these reasons, the Company concludes that the benefits of the wind energy to KPCo customers emanating from the LDWEC REPA clearly outweigh the cost (or "harm" as suggested by Mr. Kollen) and, therefore, affirms its prudence.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

[5] Cf. note 2

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

Subscribed and sworn to before me, a Notary Public, by Scott C. Weaver this 28th day of April 2010.

Notary Public

My Commission Expires

NOTARIAL SEAL STATE OF OHIO

CHARMAINE S. HAMILTON
Notary Public, State of Ohio
My Commission Expires 05-14-2012

Kentucky Power Company

REQUEST

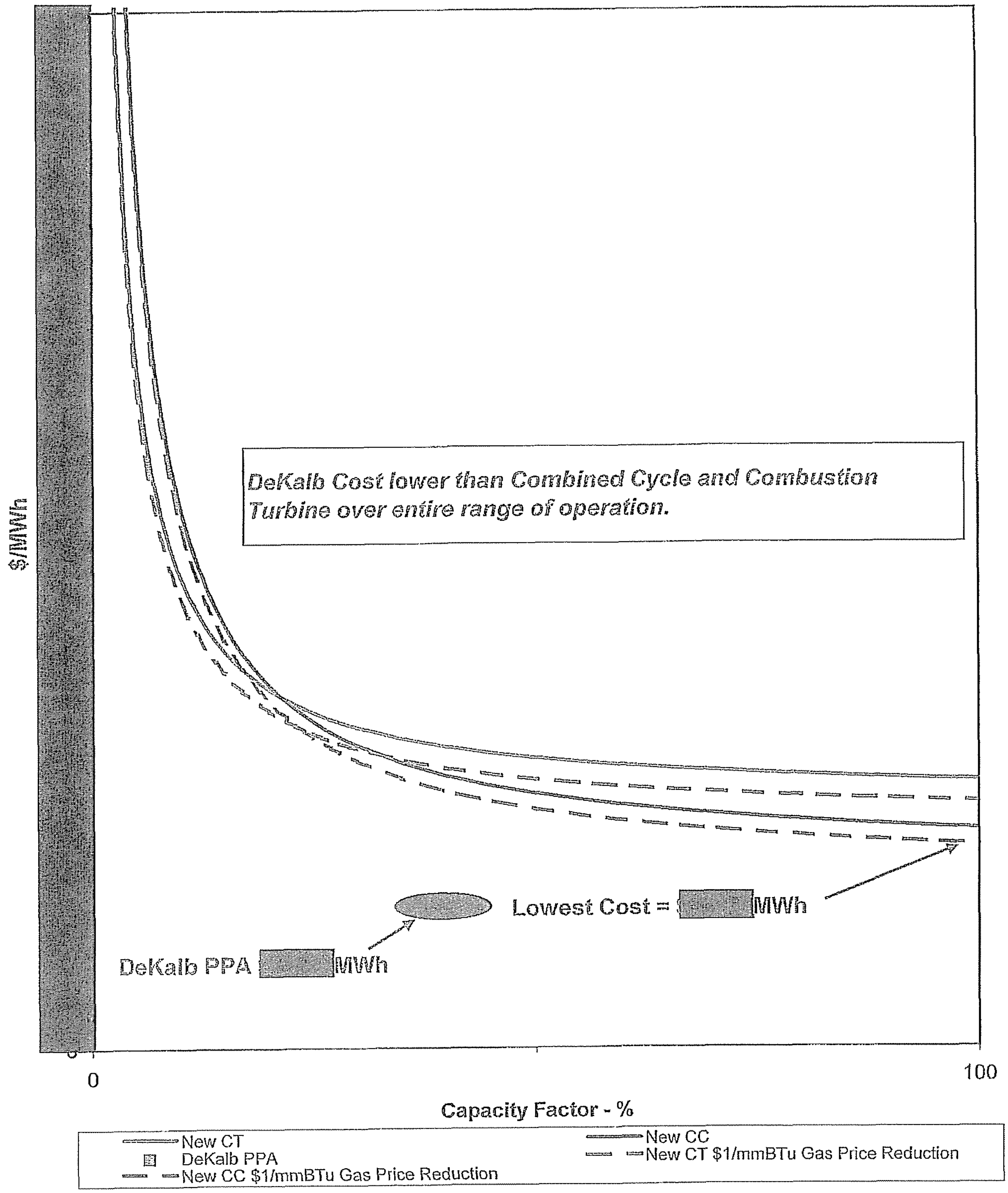
Refer to page 6 lines 15-19 of Mr. Scott Weaver's Direct Testimony wherein he describes the AEP System review of supply-side resource options and consideration of combined cycle and combustion turbine resources. With respect to the proposed wind power purchased power agreement, please provide a comparison of the annual and life-cycle costs of that proposed contract to the most recent least cost bid from a supplier or AEP's most recent cost projection for combined cycle and/or combustion turbine capacity.

RESPONSE

See pages 2 of 3 for a graphical comparison of life-cycle costs of the proposed contract and recent projections for CT and CC capacity, and page 3 of 3 for key assumptions used in developing the CT and CC life cycle costs. Confidential protection of portions of the attachment is being requested in the form of a Motion for Confidential Treatment.

WITNESS: Scott C Weaver

DeKalb vs. New CT & New CC
2010 - 2030 Levelized All-in Cost



AEP SYSTEM-EAST ZONE
New Generation Technologies
Key Supply-Side Resource Option Assumptions (a)(b)(c)

Type	Capability (MW) (Unforced Capacity) Std. ISO	Winter	Summer	Installed Cost (d) ($/kW)	Trans. Cost (e) ($/kW)	Full Load Heat Rate (HHV,Btu/kWh)	Variable O&M ($/MWh)	Fixed O&M ($/kW-yr)	Emission Rates SO2 (Lb/mmBtu)	NOx (Lb/mmBtu)	CO2 (Lb/mmBtu)
Intermediate											
Combined Cycle (2X1 GE7FA, w/ Duct Firing)	580	598	545	[redacted]					0.0007	0.008	116.0
Peaking											
Combustion Turbine (4X1GE7FA)	627	652	600	[redacted]					0.0007	0.033	116.0

Notes: (a) Installed cost, capability and heat rate numbers have been rounded.
(b) All costs in 2008 dollars.
(c) $/kW costs are based on Unforced Capacity.
(d) Total Plant & Interconnection Cost w/AFUDC
(e) Transmission Cost ($/kW,w/AFUDC).

Kentucky Power Company

REQUEST

Is the company aware that ecoPower Generation, LLC ["ecoPower"] has filed an application with the Kentucky State Board on Electric Generation and Transmission Siting seeking approval for construction of a 50 MW merchant generation plant that would utilize low grade wood and wood waste for fuel? In your response, please consider the company's response to KIUC 1-9.

a. Is the company aware that ecoPower proposes to sell its generation to AEP?

b. If AEP agrees to purchase such generation, will the need for the wind-generated power which is the subject of the instant case decrease or be eliminated?

c. Does the company have any cost projections for the power that would be generated from ecoPower's plant contrasted with the cost for the wind-generated power? If not, will the company agree to supplement its response to this request in the event any such cost projections are made? Please include in your calculations the difference in transmission costs in the ecoPower option as contrasted with transmission costs for the wind-generated power.

d. In the event the cost for power from ecoPower's facility is less expensive than the wind-generated power the company proposes to purchase under the subject contracts, does the company foresee any possibility of cancelling the wind contracts and replacing it with the power from ecoPower? Why or why not? Explain in detail.

e. Can the company negotiate any provisions with the owners of the wind generation farm allowing the company to terminate the wind contracts in the event the price for ecoPower's generation is less expensive than the wind-generated power? Why or Why not? Explain in detail.

f. Would it be more feasible for the PSC to wait for additional information regarding ecoPower's proposals before approving the contracts which are the subject of the instant case?

g. Do AEP, Kentucky Power, or any of its officers, employees or other principals have any affiliation or financial interest of any type or sort with ecoPower?

h. In the event Kentucky Power does not utilize ecoPower's generation output, is it conceivable that other AEP subsidiaries will use it? If so, do Kentucky Power and/or any other AEP subsidiary stand to receive any financial gain of any type or sort, including but not limited to transmission costs and off-system sales, from ecoPower's sale of power to AEP?

RESPONSE

(a) (c). Following the Company's original filed response, a consultant representing the biomass project developer contacted the Company and provided estimated pricing for the proposed biomass project. The developer's preliminary target price for energy, capacity, REC and any future carbon cost reduction value for plant output over a levelized twenty-year term ranges from [redacted]/MWh to [redacted]/MWh. This target price compares to the Lee-DeKalb wind Power Purchase Agreement (PPA) weighted average price of [redacted]/MWh in the initial year, and a levelized twenty-year price of [redacted]/MWh. The Company provided supporting details for the above pricing in its responses to KPCS 1-14 (2009-00545) and KIUC 1-15 (2009-00459), respectively.

The developer's proposed biomass project and the Company's proposed wind-generated PPA each provide a bundled product delivered to the PJM Interconnection. The output from both projects is subject to PJM Locational Marginal Pricing (LMP).

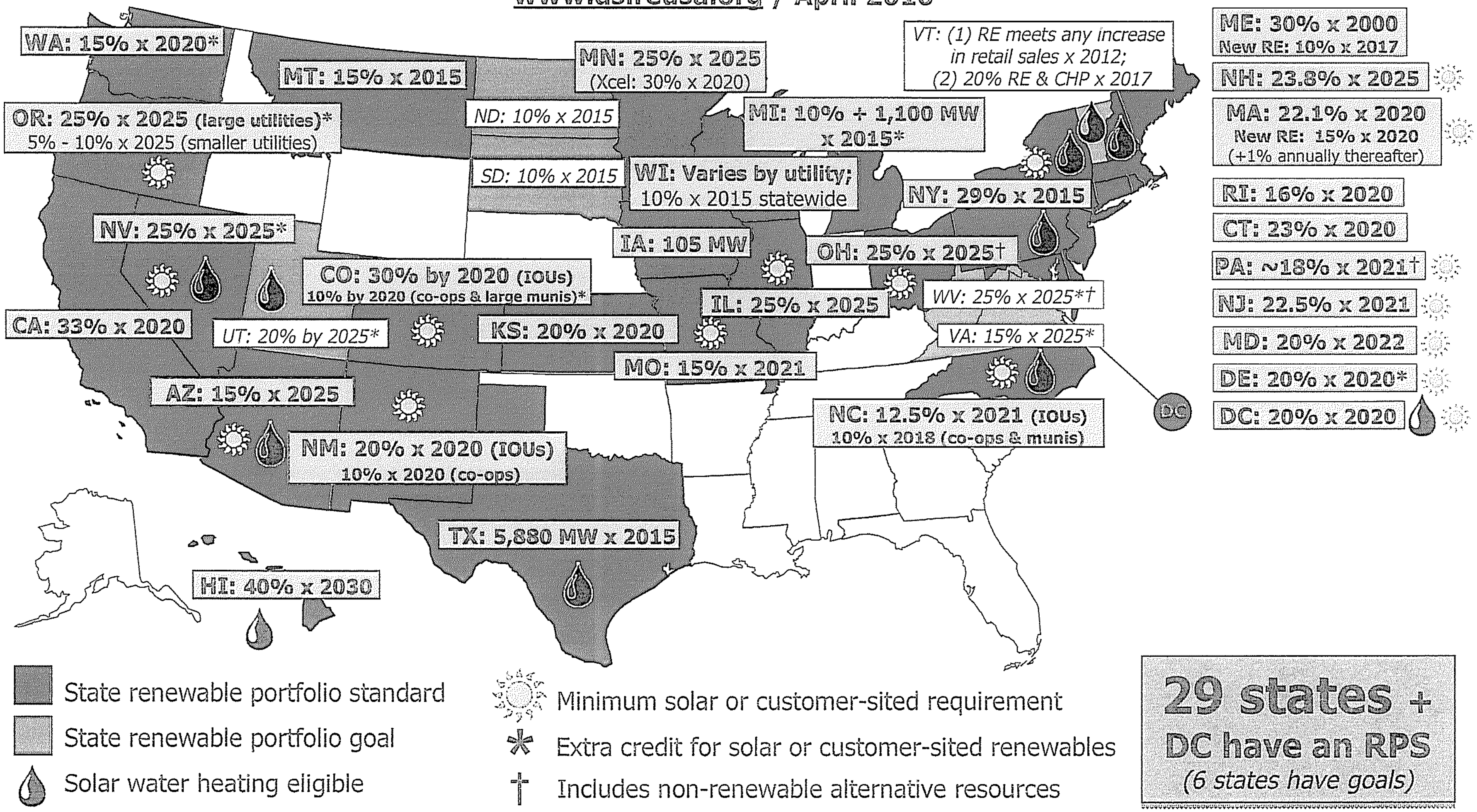
The responses to subparts (b) and (d)-(h) remain unchanged.

WITNESS: Jay F Godfrey

Exhibit SCW-3R

Renewable Portfolio Standards

www.dsireusa.org / April 2010



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
APR 30 2010
PUBLIC SERVICE COMMISSION

In the Matter of:

THE 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

* * * * * * * *

MOTION FOR CONFIDENTIAL TREATMENT

Kentucky Power Company ("Kentucky Power" or "the Company"), moves the Commission pursuant to KRS 61.878(1)(c)(1) and 807 KAR 5:001, Section 7, for an Order granting confidential treatment to information included in exhibits to the proposed rebuttal testimony of Company witness Scott C. Weaver.

The exact information the Company seeks confidential treatment for is already part of pending requests for confidentiality before the Kentucky Public Service Commission in this case and in case number 2009-00459. In support of its Motion for Confidential Treatment Kentucky Power states the information for which confidential treatment is being sought ("Confidential Information") is:

1. SCW-1R- A proposed biomass facility in Kentucky's preliminary target price for energy in connection with its proposed biomass project. This information was included in a request for confidential treatment on April 27, 2010 as part of a supplemental answer to the Attorney General's third question is his second set of discovery in this case.

2. SCW-2R- The portions of a graph and supporting data to form a comparison of wind costs to an internal estimated installed cost, transmission costs, the full load heat rate, variable O&M and fixed O&M of natural gas combined cycle and combustion turbine alternatives. This information was included in a request for confidential treatment on April 27, 2010 in response to the Kentucky Industrial Utility Customers Question 15 in its first set of discovery (KIUC 1-15) in case number 2009-00459.

3. Pursuant to 807 KAR 5:001, Section, 7, a confidential copy of each exhibit for which confidential treatment is sought is filed under seal with this motion. In addition, redacted copies of the exhibits are filed with the Company's Motion and Proposed Rebuttal Testimony.

Statutory Standard

3. KRS 61.878(1)(c)(1) excludes from the public disclosure requirements of the Open Records Act:

> "[r]ecords confidentially disclosed to an agency or required by an agency to be disclosed to it, generally recognized as confidential or proprietary, which if openly disclosed would present an unfair commercial advantage to competitors of the entity that disclosed the records.

The Confidential Information satisfies this exception.

The Information Is Generally Recognized As Confidential And Proprietary

4. The Company attached the previous filings and affidavits seeking confidential treatment of the same documents. The filing in case number 2009-00459 includes the affidavit of Scott C. Weaver in support of the confidentiality of the exhibit labeled in the rebuttal as SCW-1R. The filing in case number 2009-00545 includes the affidavit of Jay F. Godfrey in support of the confidentiality of the exhibit labeled in the rebuttal as SCW-2R.[1] As Mr. Godfrey and Mr. Weaver testify, the Confidential Information is generally considered confidential and

proprietary. Affidavit of Jay F. Godfrey at ¶ 4 ("Godfrey Affidavit"), Affidavit of Scott C. Weaver at ¶ 5 ("Weaver Affidavit"). The Confidential Information is not available to or ascertainable by, persons outside Kentucky Power or American Electric Power Service Corporation ("AEPSC") (Collectively, "the Companies") by proper means other than on a confidential basis. Godfrey Affidavit at ¶ 9, Weaver Affidavit at ¶ 11. Indeed, the Confidential Information derives economic value from the fact it is not generally known to persons who can obtain value from its disclosure. Godfrey Affidavit at ¶ 9, Weaver Affidavit at ¶ 11.

5. In light of the confidential and proprietary nature of the information AEPSC and Kentucky Power take all reasonable efforts to protect it from public disclosure. Godfrey Affidavit at ¶ 10, Weaver Affidavit at ¶ 12. Among the measures taken are limiting access to this type of information within the companies to only those persons with a legitimate need to access the information, protecting against disclosure outside the Companies, and entering into confidentiality agreements to protect against disclosure by persons outside the Companies who are afforded access for legitimate purposes. Id.

Disclosure Of The Confidential Information Will Result in An Unfair Competitive Advantage To The Competitors Of Kentucky Power

6. The Confidential Information, if disclosed to competitors of the Company, or otherwise made publicly available, would provide an unfair competitive advantage to competitors of the Company. The Confidential Information therefore is entitled to protection from disclosure by the Commission. Specifically, the public disclosure of the Confidential Information would be detrimental to Kentucky Power by:

a) Provide the public the Company's competitive assumptions and/or negotiated contract terms concerning a natural gas combined cycle and combustion turbine (SCW-1R).

[1] The Company refers to and incorporates by reference the affidavits already on file with the Commission in this

b) Establish certain benchmarks in future negotiations, thereby potentially increasing costs incurred by customers of Kentucky Power and its affiliates (SCW-1R). Weaver Affidavit at ¶ 7.

c) Permit other purchasers to benefit from Kentucky Power's efforts in negotiating the REPA and "cherry-pick" the most advantageous contracts and terms to Kentucky Power's competitive disadvantage (SCW-1R). Weaver Affidavit at ¶ 7.

d) Increasing the cost of these sources (SCW-2R). Godfrey Affidavit at ¶ 7.

e) Disclosure could discourage other generators from interacting with the Company to discuss future potential sources from suppliers, because the Confidential Information was provided based upon the understanding the information would not be publicly disclosed. Godfrey Affidavit at ¶ 8.

7. The renewable energy market is extremely competitive. Weaver Affidavit at ¶ 6. Information such as proposed pricing of a new generator could affect the bargaining between potential sellers and purchasers, and provide competitors of Kentucky Power an unfair competitive advantage. Godfrey Affidavit at ¶ 6, Weaver Affidavit at ¶ 7. The Commission previously recognized that terms of power supply agreements that included pricing were confidential in this case in a Commission letter dated February 11, 2010 and filed in this docket on February 12, 2010.

Wherefore, Kentucky Power Company respectfully requests the Commission grant confidential treatment to the information described in Paragraph 1 of this Motion.

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case and Case No. 2009-00459.

Respectfully submitted,

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COUNSEL FOR:
KENTUCKY POWER COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by first class mail, postage prepaid, upon the following parties, this 30th day of April, 2010.

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