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MAY 02 2013

PUBLIC SERVICE  
COMMISSION

**Via Overnight Mail**

May 1, 2013

Mr. Jeff Derouen, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

Re: **Case No. 2012-00578**

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies each of: 1) KIUC's **AMENDED** RESPONSES to Q-11, Q-18, Q-19, Q-20 and Q-27 of KENTUCKY POWER's FIRST REQUEST FOR INFORMATION; 2) KIUC's **AMENDED** RESPONSES to Q-1 and Q-16 of COMMISSION STAFF's FIRST REQUEST FOR INFORMATION; and 3) **AMENDED** DIRECT TESTIMONY AND EXHIBITS OF PHIL HAYET with changes marked for filing in the above-referenced docket.

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place this document of file.

Ninety

Very Truly Yours,



Michael L. Kurtz, Esq.  
Kurt J. Boehm, Esq.  
Jody Kyler Cohn, Esq.  
**BOEHM, KURTZ & LOWRY**

MLKkew  
Attachment  
cc: Certificate of Service  
Quang Nyugen, Esq.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and regular U.S. Mail to all parties on this 1<sup>st</sup> day of May, 2013.



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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
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IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY  
FOR (1) A CERTIFICATE OF PUBLIC  
CONVENIENCE AND NECESSITY AUTHORIZING  
THE TRANSFER TO THE COMPANY OF AN  
UNDIVIDED FIFTY PERCENT INTEREST IN THE  
MITCHELL GENERATING STATION AND  
ASSOCIATED ASSETS; (2) APPROVAL OF THE  
ASSUMPTION BY KENTUCKY POWER COMPANY  
OF CERTAIN LIABILITIES IN CONNECTION WITH  
THE TRANSFER OF THE MITCHELL  
GENERATING STATION; (3) DECLARATORY  
RULINGS; (4) DEFERRAL OF COSTS INCURRED IN  
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TO MEET FEDERAL CLEAN AIR ACT AND  
RELATED REQUIREMENTS; AND (5) ALL OTHER  
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Case No. 2012-00578

KIUC'S AMENDED RESPONSES TO  
COMMISSION STAFF'S  
FIRST REQUEST FOR INFORMATION

1. Refer to page 5, lines 8-12 of the Direct Testimony of Lane Kollen ("Kollen Testimony,") which states, "The KIUC proposal to acquire 20% of the Mitchell units, combined with a Big Sandy 1 conversion to natural gas, promotes fuel diversity. The KIUC proposal also increases jobs and local property taxes in Kentucky, as well as reducing the property taxes and B&O taxes paid to the state of West Virginia." Provide the following:

- a. The amount of capacity in MWs that is assumed to be available from a conversion of Big Sandy 1 to natural gas.

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- b. A description of the number of full-time jobs that will be available at Big Sandy Unit 1 once it is converted to natural gas.
- c. A description of the property tax rate that will be applicable to Big Sandy Unit 1 once it has been converted to natural gas, and an estimate of Kentucky Power Company's ("Kentucky Power") annual property tax expense payable once Big Sandy Unit 1 has been converted to natural gas.
- d. A description of the West Virginia property tax rate and the B&O tax rates applicable to the Mitchell Station, and an estimate of Kentucky Power's annual West Virginia property tax expense and annual B&O taxes associated with a 50 percent ownership of the Mitchell Station.

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- e. An explanation of how the retirement of Big Sandy 2 and the repowering of Big Sandy 1 to natural gas firing will result in both increased jobs and increased local property taxes in Kentucky.

**AMENDED RESPONSE:**

- a. According to the Company's Strategist modeling, Big Sandy 1 would operate as a 260 MW unit once it is converted to gas.
- b. Mr. Kollen did not identify the number of full-time jobs at Big Sandy 1 once it is converted to natural gas. He stated only that the Big Sandy 1 conversion would result in jobs in Kentucky compared to alternatives that did not involve capacity sited in Kentucky.

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c. KIUC did not perform an analysis of the on-going annual property taxes that would be paid once Big Sandy 1 converts to gas. With respect to information concerning Big Sandy's property tax rate, the Company provided a levelized fixed charge rate with the property tax embedded within that rate. See Kentucky Power's Response to KIUC 1-33. In particular refer to the file: BS 1 Gas Conversion STRAT INPUT DATA2.xls, tab = Rates.

d. KIUC did not perform an analysis of the annual property taxes that would be paid once Mitchell is acquired. With respect to information concerning Mitchell's property tax rate, the Company provided a levelized fixed charge rate with the property tax embedded within that rate. See Kentucky Power's Response to KIUC 1-33. In particular

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refer to the file: ML12 Transfer STRAT INPUT DATA4.xls, tab = KPCO + APCO Rates. Also, the projected West Virginia property tax revenue and projected West Virginia B&O tax revenue for half of Mitchell is identified in the AEP impairment analysis. KIUC Set Two, Item 55, page 1 of 4 under fixed operating expenses.

e. Mr. Kollen assumed that Big Sandy 2 would be retired, as did Kentucky Power Company. Thus, the retirement of Big Sandy 2 will not result in increased jobs or increased local property taxes in Kentucky. However, the repowering of Big Sandy 1 to burn natural gas in lieu of retirement or in lieu of alternatives that do not involve capacity sited in Kentucky will result in increased jobs and increased local property taxes in Kentucky.

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16. Refer to page 29, lines 7-9 of the Hayet Testimony. Provide support for the approximately \$27 million in savings resulting from the delay in the Mitchell purchase to June 2015.

**AMENDED RESPONSE:**

See the response to KPCO 1-27.

Mr. Hayet has made revisions to analyses that he initially presented in the Testimony he filed on April 1, 2013. The revisions were necessary because the Company's Strategist modeling overstates the Installed Capacity ("ICAP") revenues associated with acquiring the Mitchell capacity on January 1, 2014. A portion of the PJM capacity revenue must be eliminated since Mitchell is already committed to AEP's Fixed Resource Requirement ("FRR") plan and no additional ICAP revenues will be available prior to June 1, 2015. If this capacity revenue is eliminated from the Strategist modeling, then it further improves the economics of the KIUC recommendation to acquire 20% of the Mitchell units on June 1, 2015 rather than on January 1, 2014. The savings will increase to \$37 million from the \$27 million that Mr. Hayet previously quantified.



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Refer to KIUC's Amended Response to KPCO 1-27 for details regarding the changes that were made.