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JUN 17 2013

PUBLIC SERVICE
COMMISSION

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June 17, 2013

HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
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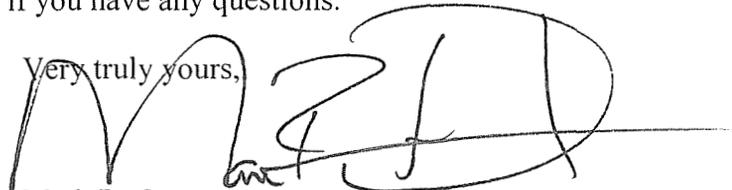
Mark R. Overstreet
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RE: Case No. 2013-00144

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Power Company's responses to Staff and KIUC's second set of data requests. Copies of the responses are being served along with a copy of this letter by overnight delivery on counsel and the persons listed below.

Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

MRO

cc: Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Jennifer B. Hans
Dennis Howard II
Lawrence Cook
Lane Kollen
Alan Taylor

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 17 2013

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY FOR)
APPROVAL OF THE TERMS AND CONDITIONS OF THE)
RENEWABLE ENERGY PURCHASE AGREEMENT FOR)
BIOMASS ENERGY RESOURCES BETWEEN THE)
COMPANY AND ECOPOWER GENERATION-HAZARD)
LLC; AUTHORIZATION TO ENTER INTO THE)
AGREEMENT; GRANT OF CERTAIN DECLARATORY)
RELIEF; AND GRANT OF ALL OTHER REQUIRED)
APPROVALS AND RELIEF)

Case No. 2013-00144

KENTUCKY POWER COMPANY RESPONSES TO
COMMISSION STAFF'S SECOND SET OF DATA REQUESTS

June 17, 2013

KENTUCKY POWER COMPANY

REQUEST

Refer to the Response to Items 6 and 7 of Commission Staff's First Information Request ("Staff's First Request"). In the Response to Item 6, Kentucky Power states that the Renewable Energy Power Agreement ("REPA") "would be a very small addition that only assists with the Company's total capacity and energy needs after the Company's base load is covered by the Mitchell transfer." In the Response to Item 7, Kentucky Power states that when approached by ecoPower in 2011 concerning the REPA, Kentucky Power was evaluating options for the disposition of its Big Sandy generating station and that it eventually entered into the REPA to provide flexibility in meeting future load growth.

- a. Identify with specificity when the REPA would enable Kentucky Power to meet its future load requirements.
- b. Would the capacity and energy associated with the REPA still be needed if Kentucky Power were to ultimately determine that repowering Big Sandy 1 would be the most cost-effective disposition for that generating unit?
- c. The Response to Item 7 of Staff's First Request also mentions that Kentucky Power evaluated the financial and accounting impacts of the REPA. Provide any and all documentation related to the financial and accounting analysis performed by, or on behalf of, Kentucky Power, including any and all supporting workpapers in electronic format.

RESPONSE

- a. The capacity and energy from the project can be used to meet the Company's future load requirements once it becomes operational.
- b. Assuming the Mitchell transfer is approved, and further assuming Big Sandy Unit 1 were to be retired and replaced with an alternative, more cost-effective supply source of roughly equivalent capacity (and energy), the REPA capacity and energy would not be required.

- c. The evaluation of the REPA's accounting considerations was performed through internal reviews and discussions. The financial analysis was the calculation of the rate impact of the REPA.

As part of its accounting review of the REPA, the Company determined that certain language in the agreement would require that the Company to treat the REPA as a capital lease. Through subsequent negotiations the contract language was amended to delete the language in question.

Following the parties' agreement on a final contract document, there was a subsequent accounting review and report to management. Please see Attachment 1 of this response for the accounting analysis of the REPA.

The formal documentation will not be completed until the REPA is approved by the KPSC.

WITNESS: Ranie K Wohnhas

Deal / HEDGE STRATEGY	REGION	Risk Book	DATE Reviewed	DESCRIPTION	ACCOUNTING CONCLUSION	ESTIMATED VALUE
Power				<p>ecoPower Generation - KY Power</p> <p>KY Power executed a 20 year biomass purchase power agreement. The expected completion date of the associated 66 MW biomass generation facility is September 2016.</p>	<p>The REPA was evaluated to determine if it creates a variable interest - requiring consolidation under ASC 810, if it is a lease, or if it is a derivative under ASC 815. Because the PPA does not convey benefit (for successful operation) nor penalize KY (for unsuccessful operation of the facility) and KY has no debt obligation, nor is responsible for any physical loss to the facility, the REPA does not create a variable interest under ASC 810. The REPA is not a lease because the right to use criteria is not met: specifically, the price KY will pay is contractually fixed per unit of output and KY has no right to control the facility. The REPA is a derivative because there is a notional (Committed Renewable Energy). This contract qualifies for the normal election under ASC 815-1C-15-41. Form documentation will be forthcoming.</p>	TBD

KENTUCKY POWER COMPANY

REQUEST

Refer to the Response to Item 9 of Staff's First Request. Provide the evaluation that was performed on behalf of Kentucky Power concerning the REPA.

RESPONSE

Please see the Company's response to KIUC 1-4, KIUC 1-14, KIUC 1-24, and KIUC 1-32. In addition, the Company is continuing to review its files and will supplement its response as necessary.

WITNESS: Jay F Godfrey

KENTUCKY POWER COMPANY

REQUEST

Refer to the Response to Item 11 of Staff's First Request. Did ecoPower conduct an economic study or analysis associated with its biomass generating facility? If so, provide a copy of the economic study or analysis.

RESPONSE

Kentucky Power is not aware of any economic study or analysis conducted by ecoPower.

WITNESS: Jay F Godfrey

KENTUCKY POWER COMPANY

REQUEST

Refer to the Response to Item 12 of Staff's First Request. Confirm that the \$28.4 per MWh (Footnote 1) used in the avoided fuel cost calculation represents the amount of fuel costs included in Kentucky Power's base rates.

RESPONSE

The Company confirms that \$28.4 per MWh is the current fuel cost included in base rates. The Company used \$28.4 per MWh to determine the avoided fuel cost in Exhibit RKW-1 of the testimony of Company witness Wohnhas.

WITNESS: Ranie K Wohnhas

KENTUCKY POWER COMPANY

REQUEST

Refer to the Response to Item 17 of Staff's First Request. State when a decision is expected to be made regarding the future of Big Sandy Unit 1.

RESPONSE

Based upon the date within the RFP that a short-list would be identified on July 12, 2013, the Company would expect to make a decision from the short-list by mid-October; additional time will likely be required for final contract negotiations and execution.

WITNESS: Ranie K Wohnhas

KENTUCKY POWER COMPANY

REQUEST

Refer to the Response to Item 15 of the Attorney General's Initial Set of Data Requests. The response states that Kentucky Power will attempt to sell any excess energy in the off-system sales market.

- a. When calculating fuel costs for inclusion in the monthly fuel adjustment clause ("FAC") filing, a utility stacks its energy from lowest cost to highest cost, with the highest cost energy being allocated to off-system sales. If the REPA is approved along with a surcharge (since the cost of the REPA energy would be paid by the surcharge and therefore would result in a zero cost to Kentucky Power for FAC purposes), would the REPA power always be allocated to Kentucky Power's retail customers rather than to off-system sales? If not, explain.
- b. If the REPA is approved along with a surcharge, state whether the kWh purchased under the REPA would be included at a zero cost in the calculation of the monthly FAC factor. If not, explain how it would be accounted for in the monthly FAC calculation.
- c. Provide any other potential impact(s) the purchase of REPA power could have on Kentucky Power's monthly FAC calculation.

RESPONSE

- a. Yes. The REPA energy would always be allocated to Kentucky Power's retail and full requirements wholesale customers.
- b. Yes.
- c. The addition of this resource has the potential to increase the Company's Inter-System Sales (kWh) which are a part of the overall calculation of the FAC.

WITNESS: Ranie K Wohnhas