

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER)
COMPANY FOR APPROVAL OF ITS GREEN) CASE NO. 2008-00151
PRICING OPTION RIDER (RIDER GPO))

O R D E R

On April 23, 2008, Kentucky Power Company ("Kentucky Power") filed an application requesting Commission approval of a proposed Green Pricing Option Rider ("Rider GPO"). Kentucky Power requested authority to implement the program beginning August 27, 2008.

BACKGROUND

The Rider GPO will be available on a purely voluntary basis to all classes of Kentucky Power's customers who wish to support the generation of electricity by renewable resources. Kentucky Power will not actually purchase green energy, but will acquire Renewable Energy Certificates ("RECs") on behalf of participating customers.

RECs are sold by those generators that use renewable resources to produce electricity as a means of supporting the development of renewable generation. One REC is issued for every megawatt hour of electricity produced from a renewable energy source. An REC represents the environmental benefit attributes associated with the renewable energy. Rider GPO defines renewable resources as generation from wind, solar photovoltaic, biomass co-firing of agricultural crops and all energy crops, hydro as certified by the Low Impact Hydro Institute, incremental improvements in large-scale

hydro, coal mine methane, landfill gas, biogas digesters, and biomass co-firing of all woody waste including mill residue, but excluding painted or treated lumber. The Rider GPO applies to renewable resources brought into service on or after January 1, 1997. Kentucky Power proposes to purchase RECs associated with renewable resources located in the territories of the SERC Reliability Corporation or the ReliabilityFirst Corporation, both of which include parts of Kentucky. This ensures that there is a large market from which to procure the best value for the customers, and that the environmental benefits associated with the RECs will affect the geographic proximity to Kentucky.

Under the terms of Kentucky Power's Rider GPO, customers may contribute funds in addition to their regular monthly charges, as determined in accordance with the tariff under which the customer takes metered service. When fixing this price for a block, Kentucky Power took into account the current market for RECs, the prices charged under similar programs by other utilities and cooperatives, and the need to maintain the tariffed price for a reasonable period.

Renewable energy will be sold in blocks of 100 kWh, up to a maximum of 500 blocks per month, at a price per block of \$2 more than the otherwise applicable energy rate. Kentucky Power may terminate service if the customer becomes delinquent in any amount owed, and the customer must not owe any arrearage prior to initiating participation in Rider GPO. Customers interested in participating in the Rider GPO may sign up through Kentucky Power's Web site or by contacting its Customer Solution Center.

Kentucky Power proposes to secure RECs through various methods, including purchasing through an REC market, purchasing through a broker, or utilizing a request for proposal bid process. Initially, Kentucky Power proposes to not buy RECs until customers are enrolled and funds are collected. Once levels of participation are established, Kentucky Power proposes the option of purchasing RECs in advance, if it is cost-effective to do so. This practice of buying RECs in advance will ensure that Kentucky Power is obtaining RECs at the lowest possible price. Kentucky Power intends to account for the costs and revenues associated with the program by establishing a regulatory liability for amounts collected under the rider. The cost of the RECs will reduce this regulatory liability or could create a regulatory asset if pre-purchases are made or if the cost of RECs is higher than expected.

An informal conference was held at the Commission's offices on June 4, 2008. In response to issues raised at the conference, Kentucky Power filed its written responses on June 27, 2008. Those responses indicate that efforts to promote Rider GPO will be mostly limited to bill inserts and cross-marketing with existing advertisements, to limit new marketing expenditures.

Kentucky Power's responses also provided assurances that the renewable energy attributes associated with any REC purchase will comply with the criteria set forth in the Rider GPO and that proper documentation will be retained attesting to those attributes. Further, Kentucky Power stated that for any REC purchased from a broker, the typical administrative fees are approximately 3.5 percent of the total cost of each REC transaction.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed Rider GPO is reasonable and should be approved. Although Kentucky Power will not be acquiring renewable energy for use on its system, the acquisition of RECs will provide capital to encourage and promote investment in renewable energy resources. The Commission encourages Kentucky Power's customers to actively participate in this program and take full advantage of this opportunity to promote the use of renewable resources for the generation of electricity.

The Commission further finds that Kentucky Power should file periodic reports relating to Rider GPO every 6 months, with the first report to be filed on February 27, 2009. The reports are to include, at a minimum, the number of program participants by customer classification, the total number of RECs subscribed, the amount of money collected for the REC and the price paid for the REC, the extent to which Kentucky Power found it necessary to purchase more RECs than needed at any time, the expenditures for education and promotion, the expenditures for research, the actual cost of the RECs, and the amount of administrative costs.

IT IS THEREFORE ORDERED that:

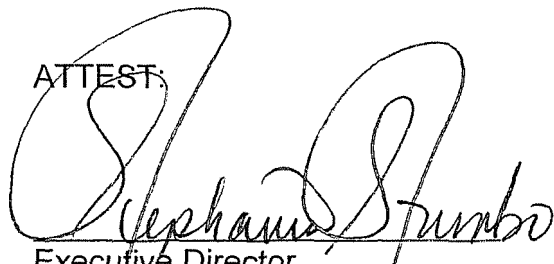
1. Kentucky Power's proposed Rider GPO is approved for service effective on and after the date of this Order.
2. Kentucky Power shall file at 6-month intervals, beginning February 27, 2009, the reports described in the findings above.
3. Kentucky Power shall file, within 20 days of the date of this Order, a tariff sheet setting forth Rider GPO, showing its date of issue and that it was issued by authority of this Order.

Done at Frankfort, Kentucky, this 26th day of August, 2008,

By the Commission

Vice Chairman Gardner Abstains.

ATTEST:



Stephanie Stumbo
Executive Director

Case No. 2008-00151