

Case No. 2016-00413
Attorney General's First Set of Data Requests
Item No. 11
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Witness: Ranie K. Wohnhas

Q - 11 Has Kentucky Power considered becoming a Reliability Pricing Model ("RPM") member of PJM Interconnection ("PJM"), thus enabling it to participate in the PJM capacity markets?
a. Provide copies of any and all studies that Kentucky Power and/or its affiliates have prepared in this regard.
b. If Kentucky Power can be eligible to become an RPM member of PJM, state whether Kentucky Power would agree to return any and all proceeds earned under participation in the PJM capacity markets to its ratepayers. If not, explain why not.

A - 11 Kentucky Power annually assesses its options to comply with the PJM capacity market, either through participation in RPM or self-supplying under FRR.

a. Kentucky Power objects to this data request to the extent it requires the production of attorney-client privileged communications or documents protected by the attorney work product doctrine. Kentucky Power is filing a privilege log identifying the documents with respect to which the privilege and doctrine are being asserted.

Without waiving the privilege or doctrine, please see attachment [KPCO_R_AG_1_11_Attachment1_Confidential.pdf](#) for the non-privileged study pertaining to Kentucky Power's 2020/2021 PJM capacity market election. Kentucky Power is seeking confidential treatment for a portion of this attachment.

b. While eligible for RPM market payments, the Company has traditionally self-supplied which still provides the opportunity to sell surplus capacity. Regardless of the election, proceeds are appropriately credited to customers.



Power Coordination Agreement (PCA) Proposal to the Operating Committee

Date: March 3, 2017

Subject: 2020/2021 PJM FRR / RPM Capacity Election

Background

AEPSC, on behalf of APCo, I&M, KPCo and WPCo (collectively “Companies”) must advise PJM whether these Companies will participate in the Reliability Pricing Model (“RPM” or “Auctions”) capacity market individually or will self-supply their PJM capacity requirements under the Fixed Resource Requirement (“FRR” or “self-supply”) alternative, either individually or jointly, for the PJM Planning Year (“PY”) 2020/2021 (“20/21”) which runs from June 1, 2020 through May 31, 2021. PJM must be notified of this decision no later than March 11, 2017¹.

Besides each operating company’s decision to participate in RPM or self-supply under FRR, the PCA allows the option for two or more of these operating companies to enter into a joint FRR plan, whereby these companies are under a combined, common FRR Plan.

Recommendation

It is recommended that APCo, I&M, KPCo and WPCo all elect FRR under a joint plan for PY 20/21.

Support for Recommendation

- 1) The FRR election is anticipated to result in a lower reserve margin requirement for the companies than the reserve margin anticipated to occur in the 20/21 RPM Base Residual Auction (BRA). Past BRAs have resulted in an averaged reserve margin requirement of approximately 20%.
- 2) FERC, in its Order dated June 9, 2015 in Docket No.ER15-623-000, approved the new PJM Capacity Performance (CP) market and associated rules and requirements. As a result, severe charges can be incurred during an emergency event (“performance assessment hours”) if CP units have outages or derates. Under RPM, a financial settlement of these charges is required. Under FRR, an entity is allowed to select, prior to the delivery year, the same financial settlement or, for the year following the delivery year, provide additional MWs if the entity has elected to remain FRR. The replacement option is expected to be much

¹ In addition, I&M has a contractual obligation to notify a wholesale customer one week or five business days before the deadline of its FRR or RPM election decision.

lower cost (e.g., approximately one-third of CPP) based on historical auction settlement prices.

- 3) If any or all of the Companies were to elect RPM, the existing PJM rules would require that those Companies remain RPM for a minimum of five PYs -- extending out through May 2025. Remaining FRR for the 20/21 PY provides the Companies with the additional optionality of assessing the FRR/RPM decision next year.
- 4) By combining APCo, I&M, KPCo and WPCo into a combined FRR Plan, the companies' capacity position can be managed collectively during the 20/21 delivery year, providing potential additional flexibility and risk sharing.