Kentucky Power Company
KPSC Case No. 2024-00305
Commission Staff's First Set of Data Requests
Dated October 18, 2024

DATA REQUEST

KPSC 1_1 Refer to the proposed tariff, P.S.C. KY. NO. 13, Original Sheet No. 8–3.
a. Explain how Kentucky Power decided to set the applicability cutoff for the new provisions at 150 MW.
b. Explain whether existing customers that expand their operations to a level above a contract demand of 150 MW will be subject to the new provisions once their contract demand exceeds 150 MW.

RESPONSE

a. The Company has proposed the 150 MW threshold to protect its existing customers from the significant financial commitment required to serve loads of that magnitude or greater into the future (such as securing new generation resources) and the associated cost of serving all of its customers. Additionally, setting a 150 MW minimum threshold ensures the new provisions only apply to new customers, who have not provided significant contributions to the Company's existing infrastructure needed to serve its existing customer base, as that threshold is greater than the Company's largest existing customer.

b. No, the intent is not to impact current customers. The proposed tariff language on Sheet No. 8-3 states "For Commercial and industrial customers requesting service on or after September 30, 2024…" which makes the proposed provisions application only to new customers requesting service after that date. The Company further is unaware of any customers that currently have plans to increase their load to this 150 MW threshold.

Witness: Tanner S. Wolffram

DATA REQUEST

KPSC 1_2 Refer to the proposed tariff, P.S.C. KY. NO. 13, Original Sheet No. 8–3.
a. Explain the circumstances under which Kentucky Power would agree to allow the customer to reduce the contract capacity with less than five years' notice.
b. Explain the circumstances under which Kentucky Power would agree to allow the customer to reduce the maximum contract capacity by more than twenty percent.
c. Explain whether the amount of collateral would be updated if the recomputed value was less than the current amount held by 10 percent or more.

RESPONSE

a.-b. The Company is aware of a sole circumstance by which it would agree to reduce the five years notice or the maximum capacity by more than twenty percent: if the Company has other customers that are new or expanding their load profile that would counteract the loss of capacity from a customer under these terms.

Nonetheless, the Company will consider seriously any such request and any unique circumstances thereof.

c. No, this would not be appropriate as the planning and investments necessary to serve the original contract capacity would have already been made by the Company.

Witness: Tanner S. Wolffram

DATA REQUEST

KPSC 1_3 Refer to the proposed tariff, P.S.C. KY. NO. 13, Original Sheet No. 8–3.
a. Explain whether the proposed provisions would be applicable to customers where Kentucky Power did not have substantial transmission and generation infrastructure investments in order to serve.
b. Explain how Kentucky Power determined that a 20-year term is necessary to recover transmission and generation infrastructure investments.
c. Explain how Kentucky Power determined that a one-time payment equal to five years of minimum billing is necessary to recover transmission and generation infrastructure investments.
d. Explain how Kentucky Power determined that collateral equal to 24 times the customer's previous maximum monthly non-fuel bill is necessary to recover transmission and generation infrastructure investments.

RESPONSE

a. The Company is unaware of any circumstance where a new customer of this size locating in its service territory would not require additional and/or expanded transmission or generation infrastructure investment to serve that customer.

b. An initial contract term of twenty years provides reasonable assurance that the customer will take service over a period that reasonably aligns with the costs of significant investments and financial commitments the Company will make to provide that service and reflected within the Company's cost of service. It is important for the Company to have reciprocal long-term commitment from large load customers to support making the necessary investments and commitments.

c. For further clarification, the Company's proposal would establish a minimum five-year commitment under the Tariff and provide the customer the ability thereafter to exit the contract by providing a one-time payment ("Contract Termination Fee") equal to five (5) years of the customers' minimum bill in the event of a permanent closure. Given these two requirements, the customer would effectively be contractually obligated to a 10-year financial commitment. These proposals along with a commensurate notice period ("Notice Period") provide reasonable safeguards to all other customers in the event of an unexpected shut down by a large load customer.

The Company must make long-term investments and other financial commitments in generation and transmission to meet the needs of new large loads. However, the Company understands that circumstances can change for large load customers. If a significant change in circumstances were to occur, the Company needs sufficient time to manage its commitments in an orderly, well-reasoned manner within regulatory and market timelines. In establishing the Notice Period and Contract Termination Fee requirements, the Company considered and evaluated the risks by performing a sensitivity analysis related to the potential cost of the generation assets needed to serve the load and the potential market for such assets in the event of a significant change in circumstances. This sensitivity analysis evaluated varying time horizons from 20 years to 5 years. Please see KPCO_R_KPSC_1_3_Attachment1 for the detailed analysis.

Figures 1 and 2 in KPCO_R_KPSC_1_3_Attachment1 demonstrate the potential net cost or benefit using a range of asset costs and market conditions compared to the proposed Contract Termination Fee equal to five (5) years of the customers' minimum bill requirement. Figure 1 assumes an "average" asset cost of $275 per MW-day and $34.14 per MWh, and tests that asset cost against a range of market conditions. This "average" asset cost value was selected based upon the Company's cogeneration tariff. For capacity, the range of market conditions captured the highest and lowest PJM RPM capacity costs for the five (5) most recently available delivery years. For energy, the range of market conditions captured the annual average LMP for the KY load zone during the eight (8) year period from 2016 through 2023.

Based on the sensitivity analysis performed, Figure 1 demonstrates that, when assuming average resource costs, the Contract Termination Fee generally provides adequate coverage over a range of market risks for periods up to ten (10) years and becomes more sensitive to market value for periods over ten (10) years. Conversely, Figure 2 assumes an "average" market condition using the average capacity and LMP values from the same PJM market data described in Figure 1, and tests that against a range of asset costs from 25% higher to 25% lower than the average asset assumed in Figure 1. Based on the sensitivity analysis performed, Figure 2 demonstrates that, when assuming average market conditions, the Contract Termination Fee generally provides adequate coverage over a range of risks for periods up to ten (10) years and becomes more sensitive to asset cost for periods over ten (10) years.

While it is not possible to precisely predict the average cost of the portfolio of future generation resources or the market conditions that would exist at the time a large load customer would permanently close its operations, these sensitivity analyses demonstrate the proposed Contract Termination Fee covers a range of risks. The Contract Termination fee strikes a reasonable balance by providing a reasonable and predictable amount for all interested parties, the customer, all of the Company's other customers, and the Company.

d. The proposed collateral amount was established to protect existing customers from the size risk of these large loads. Should a customer of this magnitude unexpectedly exit the Company's service territory, there is potential for significant financial harm to the Company and its other customers. While no reasonable term can fully insulate the Company and its other customers, the proposed terms provide additional protections not currently available to the Company. The 24-months, working in conjunction with the other protections provided in the Company's proposed tariff, work together to mitigate the potential impacts to the Company's existing customer base should one of these large load customers locate and ultimately close operations during the 20-year contract term.

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KPSC 1_4 Refer to the proposed tariff, P.S.C. KY. NO. 13, Original Sheet No. 8–3.
a. Explain whether the billing demand would be the maximum demand created during the billing month if greater than the customer's on-peak contract capacity or the customer’s highest previously established monthly billing demand during the past 11 months.
b. Explain how Kentucky Power determined that the minimum billing demand should be 90 percent of the greater of the customer's on-peak contract capacity, the customer’s highest previously established monthly billing demand during the past 11 months or, the customer’s maximum demand created during the billing month.

RESPONSE

a. The intent of this provision is to ensure the demand ratchet charge is identical to the existing demand ratchet charge provision in Tariff I.G.S., except the charge is 90% instead of 60%. As such, in practice, this provision would ensure the customer’s monthly billing demand would be the greater of 90% of their on-peak contract capacity, 90% of the customer’s highest previously established monthly billing demand during the past 11 months, or the customer’s maximum demand created during the billing month.

b. The proposed minimum billing demand for large load customers is primarily based on the magnitude and size of these customers resulting in long-term investments and other financial commitments for years into the future to have adequate power supply to meet the customers’ needs based on the total contract capacity requested by the customer. Without this proposed term, a drop in billing demand by just one of these customers could have significant negative financial consequences for both the Company and its other customers. KPCO_R_KPSC_1_4_Attachment1 provides an illustration of this by providing a hypothetical 1 GW customer at expected billing (minimum not triggered), minimum bill computed under the Company’s current 60% minimum billing demand provision, and the Company’s proposed 90% billing demand provision.

Witness: Tanner S. Wolffram

DATA REQUEST

KPSC 1_5 Provide any studies or supporting documentation Kentucky Power used to make the determination that 150 MW was the appropriate minimum contract demand for the proposed conditions of service.

RESPONSE

Please see the Company’s response to KPSC 1-1.

Witness: Tanner S. Wolffram

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DATA REQUEST

KPSC 1_6 Provide any studies or supporting documentation that five-year notice for termination of service was reasonable or mathematically necessary for Kentucky Power to recover its costs.

RESPONSE

Please see the Company's response to KPSC 1-3.

Witness: Tanner S. Wolffram

VERIFICATION

The undersigned, Tanner S. Wolffram, being duly sworn, deposes and says he is the Director of Regulatory Services for Kentucky Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.

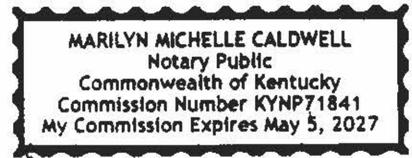
Tanner S. Wolffram

Commonwealth of Kentucky)
) Case No. 2024-00305
County of Boyd)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Tanner S. Wolffram, on October 29, 2024.

Notary Public

My Commission Expires May 5, 2027



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