

2008-00151

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Frankfort, KY 40602-0634
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April 23, 2008

RECEIVED

APR 23 2008

PUBLIC SERVICE
COMMISSION

Mark R. Overstreet
(502) 209-1219
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movers tree@stites.com

HAND DELIVERED

Stephanie L. Stumbo
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: Kentucky Power Company Green Pricing Option Rider

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and ten copies of Kentucky Power Company's application for approval of its proposed Green Pricing Option Rider. Also enclosed is the testimony of David M. Roush in support of the tariff rider. Please do not hesitate to contact me if you have any questions.

Representatives of the Attorney General and the Kentucky Industrial Utility Customers, Inc. are being provided a copy of the application and supporting testimony by copy of this letter.

Very truly yours,


Mark R. Overstreet

cc: Michael L. Kurtz
Lawrence W. Cook

KE057:00KE4:16850:1:FRANKFORT

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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APR 23 2008

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY)
POWER COMPANY FOR APPROVAL OF)
ITS GREEN PRICING OPTION RIDER)
(RIDER G.P.O.))

Case No. 2008- 00151

APPLICATION

Kentucky Power Company (Kentucky Power) moves the Commission pursuant to 807 KAR 5:001, Section 8(3) for approval of its proposed Green Pricing Option Rider ("Rider G.P.O.") In support thereof Kentucky Power states:

Applicant

1. Kentucky Power is an electric utility organized as a corporation under the laws of the Commonwealth of Kentucky in 1919. A certified copy of Kentucky Power's Articles of Incorporation and all amendments thereto was attached to the Joint Application in Case No. 99-149¹ as Exhibit 1. The post office address of Kentucky Power is 101A Enterprise Drive, P.O. 5190, Frankfort, Kentucky 40602-5190. Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. Kentucky Power serves approximately 175,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is

¹ In the Matter of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger, P.S.C. Case No. 99-149.

a utility as that term is defined at KRS 278.010.

2. Kentucky Power is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP.") The AEP System is a multi-state public utility holding company system that provides electric service to customers in parts of eleven states – Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

Proposed Rider G.P.O.

3. The Rider G.P.O. is a voluntary program available to all classes of customers of Kentucky Power who wish to support the generation of electricity by renewable resources. Under the program, participating customers will pay an additional sum that will be used by Kentucky Power to purchase Renewable Energy Certificates ("RECs.") Payments under Rider G.P.O. will be used to purchase RECs and will not be used to purchase directly electricity generated by renewable resources.

4. RECs are sold by renewable generators and are a means of supporting the development of renewable generation. When a renewable energy generator produces one megawatt hour of electricity, the renewable attributes associated with that production can be sold separately as a REC. The REC can be sold to a buyer, such as Kentucky Power, and the proceeds help underwrite the cost of the renewable generation.

5. Rider G.P.O. 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, biomass co-firing of all woody

waste including mill residue, but excluding painted or treated lumber. The rider is limited to resources brought into service on or after January 1, 1997.

6. Customers wishing to participate in the program may do so by paying an amount in addition to their regular monthly charges as determined in accordance with the tariff under which the customer takes metered service. The additional sums are paid by “purchasing” fixed 100 kWh blocks at \$2.00 a block. A customer may purchase 1-500 blocks each month.

7. In establishing the \$2.00 per 100 kWh block price for the RECs, the Company considered the following factors:

- (a) The current market for RECs;
- (b) Prices charged under similar programs offered by other utilities and cooperatives; and
- (c) The need to maintain the tariffed price for a reasonable period.

8. The Company will not buy RECs until customers are enrolled and funds are collected. However, once the program is operational and sustained enrollment levels are experienced, the Company may buy RECs in advance to meet its on-going needs if the Company determines it is cost-effective to do so.

9. The Company will account for the costs and revenues under the program by establishing a regulatory liability for amounts collected under the rider. The cost of REC purchases as they are made 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 anticipated.

10. Kentucky Power requests that Rider G.P.O. be made effective for bills rendered on or after August 27, 2008 (Cycle 1 of the September, 2008 billing month.)

11. Further support for this application and the approval of Rider G.P.O. is provided by the testimony of David M. Roush and accompanying exhibits.

Communications

12. The Applicant respectfully requests that communications in this matter be addressed to:

Mark R. Overstreet
STITES & HARBISON, PLLC
P.O. Box 634
Frankfort, Kentucky 40602-0634

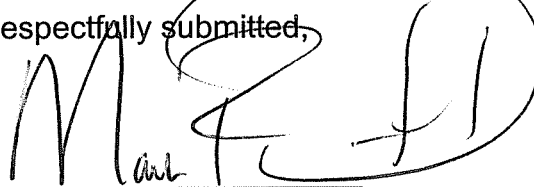
Errol K. Wagner
Kentucky Power Company
P.O. Box 5190
Frankfort, Kentucky 40602-5190

ON BEHALF OF KENTUCKY POWER

WHEREFORE, Kentucky Power Company requests that the Commission issue an Order:

- (a) Approving Rider G.P.O. effective for bills rendered on or after August 27, 2008;
- (b) Authorizing Kentucky Power Company to establish a regulatory liability, and to the extent required, a regulatory asset, to account for the costs and revenues under Rider G.P.O.; and
- (c) Granting Kentucky Power such other relief as may be appropriate.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', enclosed within a hand-drawn oval.

Mark R. Overstreet
STITES & HARBISON PLLC
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P.O. Box 634
Frankfort, Kentucky 40602-0634
Telephone: (502) 223-3477
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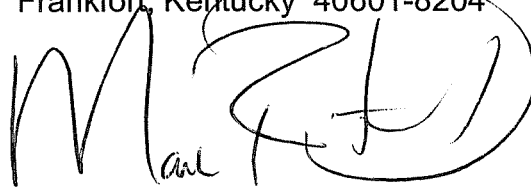
CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served by United States Mail, Postage Pre-paid, upon:

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Dennis G. Howard II
Kentucky Attorney General's Office
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

on this the 23rd day of April, 2008.

A handwritten signature in black ink, appearing to read 'Mark R. Overstreet', enclosed within a hand-drawn oval.

Mark R. Overstreet

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

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APR 23 2008

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY)
POWER COMPANY FOR APPROVAL OF)
ITS GREEN PRICING OPTION RIDER)
(RIDER G.P.O.))

CASE NO. 2008- 00151

DIRECT TESTIMONY
OF
DAVID M. ROUSH

ON BEHALF OF
KENTUCKY POWER COMPANY

April 23, 2008

**DIRECT TESTIMONY OF
DAVID M. ROUSH, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

1 Q. Please state your name, business address, and position.

2 A. My name is David M. Roush. My business address is 1 Riverside Plaza,
3 Columbus, Ohio 43215. I am employed as a Manager - Regulated Pricing and
4 Analysis for American Electric Power Service Corporation (AEPSC), a wholly
5 owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the
6 parent company of Kentucky Power Company.

7 Q. Please summarize your educational background and employment history.

8 A. I graduated from The Ohio State University (OSU) in 1989 with a Bachelor of
9 Science degree in mathematics with a computer and information science minor.
10 In 1999, I earned a Master of Business Administration degree from the University
11 of Dayton. I have completed both the EEI Electric Rate Fundamentals and
12 Advanced Courses. In 2003, I completed the AEP/OSU Strategic Leadership
13 Program.

14 In 1989, I joined AEPSC as a Rate Assistant. Since that time I have
15 progressed through various positions and was promoted to my current position of
16 Manager – Regulated Pricing and Analysis in July 2003. My responsibilities
17 include the oversight of the preparation of cost-of-service and rate design analyses
18 for the AEP System operating companies, and oversight of the preparation of
19 special contracts and pricing for customers.

20 Q. Have you previously submitted testimony in any regulatory proceedings?

1 A. Yes. I have submitted testimony before the Public Service Commission of
2 Kentucky, Indiana Utility Regulatory Commission, Michigan Public Service
3 Commission, the Public Service Commission of West Virginia and the Public
4 Utilities Commission of Ohio regarding cost-of-service and rate design related
5 issues.

6 Q. For whom are you testifying in this proceeding?

7 A. I am testifying on behalf of Kentucky Power Company, which I will refer to
8 throughout my testimony either as KPCo, or as “the Company”.

9 Q. What is the purpose of your testimony in this proceeding?

10 A. The purpose of my testimony is to provide detailed information regarding the
11 Green Pricing Option Rider (Rider G.P.O.) proposed in this proceeding by the
12 Company.

13 Q. What exhibits are you sponsoring in this proceeding?

14 A. I am sponsoring the following exhibits:

15 Exhibit DMR-1 Proposed Rider G.P.O.

16 Exhibit DMR-2 Map of NERC Regional Entities showing RFC and SERC
17 territories

18 Q. Why is the Company seeking to establish a Green Pricing Option Rider?

19 A. The Company recognizes there is a growing interest in the development of
20 renewable energy resources. As such, the Company desires to give its customers
21 the opportunity to voluntarily support renewable resource development in a
22 simple manner through their monthly electric bill.

23 Q. Please describe the Green Pricing Option proposed by the Company.

1 A. Exhibit DMR-1 is the Company's proposed Rider G.P.O. Rider G.P.O. is a
2 voluntary program available to customers who wish to support the generation of
3 electricity by renewable resources by contracting to purchase each month a
4 specific number of fixed kWh blocks, where each block equals 100 kWh.
5 Customers may elect to purchase a minimum of one block per month and a
6 maximum of 500 blocks per month. Customers may participate through a one-
7 time purchase, or establish an automatic monthly purchase agreement. Customers
8 may opt out of the program by notifying the Company. Cancellation will be
9 effective at the beginning of the current billing period when notice is provided.

10 Participating customers will continue to be billed for their electric service
11 pursuant to the applicable standard tariffs. Customers participating in the Green
12 Pricing Option will have the cost of Rider G.P.O. added to their electric bills as a
13 separate line item. In addition to the monthly charges determined according to the
14 Company's tariff under which the customer takes metered service, customers will
15 pay \$2.00 for each fixed 100 kWh block. These payments are not refundable to
16 the customer.

17 Q. Are there any restrictions on enrollment in Rider G.P.O.?

18 A. Yes. Customers must not owe any arrearage prior to initiating participation in
19 Rider G.P.O. Further, the Company may terminate service under Rider G.P.O. to
20 participating customers who become delinquent in any amount owed to the
21 Company.

22 Q. How do customers sign up for Rider G.P.O.?

1 A. Customers interested in participating in the Green Pricing Option can enroll using
2 the Company's website or by contacting the Company's Customer Solution
3 Center.

4 Q. How will the Company use the funds collected under Rider G.P.O.?

5 A. The Company will use the funds solely to purchase Renewable Energy
6 Certificates (RECs) for the program.

7 Q. What is a Renewable Energy Certificate?

8 A. When a renewable energy generator produces one megawatt-hour (MWh) of
9 electricity, the renewable attributes associated with that MWh of electricity can be
10 sold separately as a Renewable Energy Certificate (REC). That REC can be sold
11 to a buyer, such as an individual or an organization. In this way, REC buyers are
12 helping to support organizations that generate renewable energy.

13 Q. What type of RECs is the Company proposing to purchase?

14 A. The Company will purchase RECs associated with renewable resources including,
15 but not limited to: wind; solar photovoltaic; biomass co-firing of agricultural
16 crops and all energy crops; hydroelectric; incremental improvements in large
17 scale hydro; coal mine methane; landfill gas; biogas digesters; and biomass co-
18 firing of all woody waste including mill residue, but excluding painted or treated
19 lumber.

20 The Company proposes to purchase RECs associated with renewable
21 resources located in either the SERC Reliability Corporation (SERC) or the
22 Reliability *First* Corporation (RFC) territory. The territories of SERC and RFC
23 are shown in Exhibit DMR-2. This ensures that the Company will have a broad

1 market from which to purchase in order to obtain the best value for customers,
2 while achieving environmental benefit in geographic proximity to Kentucky.

3 Q. How will the Company secure the RECs?

4 A. There are a number of options for the Company to secure RECs, such as
5 purchasing through a REC market, purchasing through a broker, or utilizing a
6 request for proposal (RFP) bid process.

7 The Company will not buy RECs until customers are enrolled and funds
8 are collected. However, once the program is operational and sustained enrollment
9 levels are experienced, the Company may buy RECs in advance to meet its on-
10 going needs. This approach will allow the Company to purchase RECs in the
11 most cost effective manner.

12 Q. How will the Company account for the costs and revenues under the program?

13 A. The Company will establish a regulatory liability for amounts collected under the
14 rider. The cost of REC purchases as they are made will reduce this regulatory
15 liability or could create a regulatory asset if pre-purchases are made or if the cost
16 of RECs is higher than anticipated. In order to enable the Company to record a
17 regulatory asset, it must be probable that the deferred cost will be recovered.
18 Therefore, the order issued by the Commission to approve this proposed program
19 should indicate that any costs to purchase RECs greater than the amounts already
20 collected under Rider G.P.O. will be deferred as a regulatory asset for future
21 recovery under Rider G.P.O.

22 Q. How was the price of \$2.00 per block determined?

1 A. The price was established based upon a number of factors. The current market for
2 RECs was reviewed, as well as similar programs offered by other utilities and
3 cooperatives. The price was set at a level that should allow the Company to keep
4 the price the same for a reasonable period of time. When the Company finds that
5 the cost of procuring RECs has or will exceed the charge under Rider G.P.O., the
6 Company would file with the Commission a request to revise the charge under the
7 rider to ensure recovery of its costs. The Company hopes that the Commission
8 would act upon such a request within 90 days. Upon approval, the Company
9 would provide at least 30-days notice via bill message to all customers taking
10 service under Rider G.P.O. With that advance notice of the change in price
11 under Rider G.P.O., customers could then choose to continue or discontinue
12 participation.

13 Q. How much will Rider G.P.O. cost to implement?

14 A. The modification to the Company's customer billing system and website are
15 anticipated to cost \$100,000. Since it is likely that other AEP companies will
16 benefit from these modifications in the future, not all of these costs would be
17 charged to the Company. At this time, Appalachian Power has a filing pending in
18 West Virginia. Other AEP jurisdictions may file in the future, so the Company's
19 share is anticipated to be \$50,000 or less, depending on the number of
20 participating jurisdictions.

21 Q. Once approved by the KPSC, when can the Company begin enrolling customers?

1 A. Based on estimates from the Company's Information Technology System
2 Planning Department, it will take 3 to 4 months to modify the Company's systems
3 to be able to begin enrolling customers.

4 Q. How will the Company inform customers of Rider G.P.O.?

5 A. The Company will use bill messages printed on customer bills, bill inserts
6 included with customer electric bills, an article in the Consumer Circuit insert also
7 included with customer electric bills, and the Company's website to communicate
8 this new option to customers.

9 Q. Does the Company plan to report program activity to the Commission?

10 A. Yes. During the first 2 years under the program, the Company would file a report
11 with the Commission every 6 months which would show the number of customers
12 enrolled, blocks purchased by customers, number of RECs purchased by the
13 Company, the cost of the RECs purchased, and the balance of the regulatory
14 liability/regulatory asset. After the first 2 years, such report would be filed
15 annually.

16 Q. Does this conclude your direct testimony?

17 A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

STATE OF OHIO

CASE NO. 2008-_____

COUNTY OF FRANKLIN

AFFIDAVIT

DAVID M. ROUSH, upon first being duly sworn, hereby makes oath that if the foregoing questions were propounded to him at a hearing before the Public Service Commission of Kentucky, he would give the answers recorded following each of said questions and that said answers are true.

David M. Roush
DAVID M. ROUSH

Subscribed and sworn to before me by DAVID M. ROUSH this 22nd day of April, 2008.



CATHERINE HURSTON
Notary Public, State of Ohio
My Commission Expires 11-15-2009

Catherine Hurston
Notary Public

My Commission Expires 11-15-2009

KENTUCKY POWER COMPANY

Original Sheet No. 31-1
Canceling _____ Sheet No. 31-1

P.S.C. ELECTRIC NO. 8

RIDER G.P.O.
(Green Pricing Option Rider)**AVAILABILITY OF SERVICE.**

Available to customers taking metered service under the Company's R.S., R.S.-L.M.-T.O.D., S.G.S., M.G.S., M.G.S.-T.O.D., L.G.S., Q.P., C.I.P.-T.O.D., C.S.-I.R.P., M.W. tariffs.

Participation in this program may be limited by the ability of the Company to procure renewable energy certificates (RECs) from Renewable Resources. If the total of all kWh under contract under this Rider equals or exceeds the Company's ability to procure RECs, the Company may suspend the availability of this Rider to new participants.

CONDITIONS OF SERVICE.

Customers who wish to support the generation of electricity by Renewable Resources may contract to purchase each month a specific number of fixed kWh blocks, where each block equals 100 kWh. Customers may elect to purchase a minimum of one (1) block per month and a maximum of 500 blocks per month.

Renewable Resources shall be defined as 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, Biomass Co-Firing of All Woody Waste including mill residue, but excluding painted or treated lumber. Only Renewable Resources brought into service on or after January 1, 1997 shall qualify.

RATE.

In addition to the monthly charges determined according to the Company's tariff under which the customer takes metered service, the customer shall also pay the following rate for each fixed kWh block under contract regardless of the customer's actual energy consumption during that month. The charge will be applied to the customer's bill as a separate line item.

The Company will provide customers at least 30-days' advance notice of any change in the Rate. At such time, the customer may modify or cancel their automatic monthly purchase agreement. Any cancellation will be effective at the end of the current billing period when notice is provided.

Charge (\$ per 100 kWh block): \$ 2.00/month

TERM.

This is a voluntary program. Customers may participate through a one-time purchase, or establish an automatic monthly purchase agreement. Any payments under this program are nonrefundable.

SPECIAL TERMS AND CONDITIONS.

This Rider is subject to the Company's Terms and Conditions of Service and all provisions of the tariff under which the customer takes service, including all payment provisions. The Company may deny or terminate service under this Rider to customers who are delinquent in payment to the Company.

Funds collected under this Green Pricing Option Rider will be used solely to purchase RECs for the program.

DATE OF ISSUE April 23, 2008 EFFECTIVE DATE Bills rendered on and after August 27, 2008ISSUED BY ERROL K. WAGNER DIRECTOR OF REGULATORY SERVICES FRANKFORT, KENTUCKY
NAME TITLE ADDRESS

Issued by authority of an Order of the Public Service Commission in Case No. 2008-XXXX dated XXXX, 2008

North American Electric Reliability Corporation (NERC) Regional Entities

