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APR 26 2010

**PUBLIC SERVICE
COMMISSION**

Via Overnight Mail

April 23, 2010

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2009-00545

Dear Mr. Derouen:

Please find enclosed the original and twelve (12) copies of the RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO KENTUCKY POWER COMPANY'S FIRST SET OF DATA REQUESTS filed in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,



David F. Boehm, Esq.
Michael L. Kurtz, Esq.

BOEHM, KURTZ & LOWRY

MLKkew
Attachment

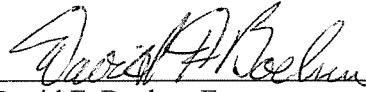
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and by first-class postage prepaid mail, to all parties on the 23rd day of April, 2010.

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APR 26 2010

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION FOR APPROVAL OF RENEWABLE)	
ENERGY PURCHASE AGREEMENT FOR WIND)	Case No. 2009-00545
ENERGY RESOURCES BETWEEN KENTUCKY POWER)	
COMPANY AND FPL ILLINOIS)	

RESPONSE OF KIUC TO
KENTUCKY POWER'S FIRST SET OF DATA REQUESTS

1. **Has Mr. Kollen provided testimony in any proceeding in which he offered an opinion with respect to an application or other request to construct, purchase, lease, finance or enter into a power purchase agreement or other agreement with respect to a renewable energy generating source? If the answer is yes, for each such proceeding please provide the following:**
 - (a) **The style, jurisdiction and case number of the proceeding;**
 - (b) **A copy of any testimony filed in the proceeding by Mr. Kollen, along with all exhibits and supporting work papers. Exhibits or workpapers that exist in an electronic format should be provided in such format; and**
 - (c) **The final decision in the proceeding.**

RESPONSE:

- (a) KPSC Case No. 2009-00353.
- (b) The testimony is available on the Commission's website.
- (c) KU and LG&E withdrew their Application.

2. **Has Mr. Kollen provided testimony in any proceeding in which he offered an opinion with respect to congestion pricing, financial transmission rights, and auction revenue rights within PJM? If the answer is yes, for each such proceeding please provide the following:**
- (a) **The style, jurisdiction and case number of the proceeding;**
 - (b) **A copy of any testimony filed in the proceeding by Mr. Kollen, along with all exhibits and supporting work papers. Exhibits or workpapers that exist in an electronic format should be provided in such format;**
 - (c) **The final decision in the proceeding; and**
 - (d) **Please identify any other experience or expertise Mr. Kollen claims with respect to congestion pricing, financial transmission rights, and auction revenue rights within PJM.**

RESPONSE:

(a)–(d) No.

3. **Please refer to page 4, lines 14-15 of Mr. Kollen’s testimony. Mr. Kollen testifies that “[t]here is significant uncertainty as to whether there ever will be a federal or Kentucky legislative mandate to acquire ... [renewable] resources....”**
- (a) **Please quantify what Mr. Kollen means by the phrase “significant uncertainty.”**
 - (b) **What is the likelihood there will be a Kentucky executive branch mandate requiring Kentucky Power to acquire renewable generating resources?**
 - (c) **Please provide the basis, including any studies, reports or other documentation for Mr. Kollen’s testimony and his quantification of the phrase “significant uncertainty” as used in his testimony and responses to this data request.**
 - (d) **Does Mr. Kollen believe it is prudent for Kentucky Power to wait to acquire any renewable generating resources until it is required to do so by federal or state mandate?**
 - (e) **Please provide the facts, studies, reports and other documentation supporting Mr. Kollen’s response to subpart (d) of this data request.**

RESPONSE:

- (a) The phrase is inherently qualitative and cannot be quantified.
- (b) This question calls for speculation. It is the Company’s burden to demonstrate that there is a mandate. Presently there is no mandate and the Company has presented no evidence to demonstrate with certainty that there ever will be a mandate.
- (c) Refer to the response to part (a) of this question.
- (d) Mr. Kollen disagrees with the premise of the question, i.e., that Kentucky Power will be required to acquire renewable resources by federal or state mandate. The Company has presented no evidence to demonstrate with certainty that there ever will be a mandate.

(e) Refer to the response to part (d) of this question.

4. Please refer to Page 4, lines 21-23 of Mr. Kollen's testimony.

- (a) Was H.B. 3 the only bill introduced in the 2010 Session of the Kentucky General Assembly relating the use of renewable energy resources by Kentucky-based utilities?**
- (b) Is Mr. Kollen familiar with other legislation dealing with renewable generation requirements introduced in the Kentucky General Assembly?**
- (c) Did the legislation identified in your answer to subpart(b) of this Request limit the renewable resources that could be used to meet the requirements that would have been imposed by the legislation to renewable generation resources located in Kentucky?**
- (d) Did the proposed federal legislation referred to at page 11 of Mr. Weaver's testimony in this proceeding specify the location of the generation used to satisfy the renewable portfolio standard to be imposed by the legislation?**

RESPONSE:

- (a) Mr. Kollen does not have personal knowledge of other legislation that may have been introduced.
- (b) Please refer to the response to part (a) of this question.
- (c) Please refer to the response to part (b) of this question.
- (d) The question is ambiguous and does not reference a specific bill or a specific section or paragraph of the referenced federal legislation.

5. Please refer to page 3, lines 11-14 of Mr. Kollen's testimony.

- (a) Are there advantages to Kentucky Power having access to diverse energy sources?**
- (b) If the answer to subpart (a) of this Request is "yes," please identify the advantages.**
- (c) If the answer to subpart (a) of this Request is "no," please provide the basis for the answer and all facts, studies, reports and other documentation supporting Mr. Kollen's response to subpart (a) of this data request.**

RESPONSE:

- (a) There may be; however, such an inquiry necessarily is fact specific and cannot be answered definitively in the abstract.
- (b) Please refer to the response to part (a) of this question.

- (c) Please refer to the response to part (a) of this question.

6. Please refer to page 6, lines 18-22 of Mr. Kollen's testimony. Mr. Kollen filed testimony on behalf of KIUC in Case No. 2009-00459.

- (a) Is Mr. Kollen familiar with Kentucky Power's response to Request No. 15, KIUC's First Set of Data Requests in Case No. 2009-00459?**
- (b) Is Mr. Kollen familiar with Kentucky Power's response to Request No. 1, KIUC Second Set of Data Requests in Case No. 2009-00459?**
- (c) Does Mr. Kollen agree that the responses referred to in subparts (a) and (b) of this data represent evidence that the contract at issue in this proceeding is at a lesser cost than the supply-supply resources addressed in those responses?**
- (d) Please provide all facts, studies, reports and other data supporting Mr. Kollen's response to subpart (c) of this Request.**

RESPONSE:

- (a) Mr. Kollen has reviewed the referenced response in conjunction with Case No. 2009-00459.
- (b) Mr. Kollen has reviewed the referenced response in conjunction with Case No. 2009-00459.
- (c) No. In addition, it is a false comparison. The comparison should be to the status quo.
- (d) Refer to page 6 line 15 through page 9 line 2 of Mr. Kollen's Direct Testimony in this proceeding.

7. Please refer to page 7, lines 4-9 of Mr. Kollen's testimony. With respect to that testimony:

- (a) Provide copies of orders of the Kentucky Public Service Commission employing the referenced "least cost" standard in connection with renewable energy sources.**
- (b) At lines 6-9 of page 7 of Mr. Kollen's testimony reference is made by Mr. Kollen to "other state commissions where this traditional ["least cost"] standard is not overridden by the requirements of a renewable mandate." Please identify all such jurisdictions referred to in Mr. Kollen's referenced testimony.**
- (c) Provide copies of the orders from the jurisdictions identified in your response to subpart (b) of this Response in which the state public utility regulatory commission employed the referenced "least cost" standard in connection with renewable energy sources.**

- (d) **Provide copies of any orders with which you are familiar in which the public utility regulatory commission in a jurisdiction lacking renewable portfolio standards or mandates declined to employ the “least cost” standard in connection with renewable generation or purchase power agreements involving renewable generation.**

RESPONSE:

- (a) Refer to KIUC’s response to Staff 1-3.
- (b) Relatively few states have adopted a renewable mandate. In the other states that have not adopted a renewable mandate, the traditional least cost standard is not overridden by the requirements of a renewable mandate. This is a logical conclusion and Mr. Kollen did not seek to research it.
- (c) The question is ambiguous and does not correctly state Mr. Kollen’s testimony.
- (d) The question is ambiguous and incomprehensible. In addition, it appears to have no correlation with Mr. Kollen’s testimony or this proceeding.

8. Please refer to page 8, lines 16-22 and page 9, lines 1-2, of Mr. Kollen’s testimony.

- (a) **Would the enactment or promulgation of federal and/or Kentucky renewable standards likely cause the price of renewable energy certificates to increase?**
- (b) **What is the projected cost of renewable energy certificates each year over the next 20 years? If the information is not available on a yearly basis, or for the next 20 years, please provide the cost for such period and upon such periodic basis the information is available.**
- (c) **Please provide all facts, studies, reports or other data supporting your response to subpart (b) of this data request.**

RESPONSE:

- (a) The question calls for speculation. In addition, the question is ambiguous and cannot be answered with the information provided even assuming that it was posed as a hypothetical.
- (b) Mr. Kollen has not prepared such a projection. The cost or value of such a certificate would depend on many variables, all of which would be speculation at this time given the lack of federal or Kentucky legislation.
- (c) Please refer to the response to part (b).

9. **Please refer to page 10, lines 19-23, and page 11, lines 1-22 of Mr. Kollen’s testimony. Please detail all criteria or factors utilized by debt rating agencies in their consideration of purchased power agreements in fixing a utility’s debt rating.**

RESPONSE:

The rating agencies consider the projected costs that will be incurred pursuant to the contract and the discount rate, among other factors. S&P’s has published the criteria it uses.

10. **Please refer to page 11, lines 1-22 of Mr. Kollen’s testimony.**
- (a) **Will all major credit rating agencies calculate the debt equivalency for the contract at issue in this proceeding as indicated in your testimony?**
 - (b) **Please provide all facts, studies, reports or other information supporting your answer to subpart (a) of this data request.**
 - (c) **If your answer to subpart (a) of this data request is “no,” please identify which credit rating agencies will calculate the debt equivalency for the contract at issue in this proceeding in a fashion different than indicated in your testimony.**
 - (d) **Please detail the manner in which the debt rating agencies identified in response to subpart (c) of this data request will calculate the debt equivalency for the contract at issue in this proceeding.**

RESPONSE:

- (a) No. Mr. Kollen followed the methodology employed by S&P’s, which has published its methodology and is believed to impute the greatest amount of debt among the three primary rating agencies. This is appropriate because the Company is rated by S&P’s. To Mr. Kollen’s knowledge, Moody’s has not published its methodology. Mr. Kollen does not know whether Fitch’s imputes PPA obligations as debt.
- (b) Please refer to the following S&P’s link for its methodology:

<http://www2.standardandpoors.com/portal/site/sp/en/eu/page.article/2,1,1,0,1204836565848.html?vregion=eu&vlang=en>
- (c) Please refer to the response to part (a) of this question.
- (d) Please refer to the response to part (a) of this question.

11. Please refer to Mr. Kollen's Confidential Exhibit LK-10.

- (a) Is Mr. Kollen aware that Standard & Poor's includes a capacity factor in its evaluation of all-in energy purchase power agreements such as the contract that is the subject of this proceeding?**
- (b) Did Mr. Kollen assume a capacity factor in connection with the calculation presented in Confidential Exhibit LK-10?**
- (c) If Mr. Kollen assumed a capacity factor in connection with the calculation presented in Confidential Exhibit LK-10 please identify the source of the capacity factor used.**
- (d) If Mr. Kollen assumed a capacity factor in connection with the calculation presented in Confidential Exhibit LK-10 please detail the basis for using the selected capacity factor, including all facts, studies, reports or other information supporting its use.**
- (e) If Mr. Kollen did not assume a capacity factor in connection with the calculation presented in Confidential Exhibit LK-10 please detail the basis for not doing so, including all facts, studies, reports or other information supporting Mr. Kollen's decision not to assume a capacity factor.**

RESPONSE:

- (a) Yes.**
- (b) Mr. Kollen assumed a combined capacity and risk factor of 30% for this purpose. That factor was identified and described on page 12 of his Direct Testimony and reflected on Confidential Exhibit LK-10.**
- (c) In the course of numerous proceedings, Mr. Kollen has seen factors ranging from 30% to 70%. Mr. Kollen chose the lower end of this range because it resulted in the least amount of imputed debt and quantifiable harm to ratepayers.**
- (d) Refer to the response to part (c) of this question.**
- (e) Refer to the response to part (b) of this question.**

12. Please refer to Mr. Kollen's Confidential Exhibit LK-10.

- (a) Please provide the basis for Mr. Kollen's use of a 50/50 debt/equity capital structure in the calculation on Confidential Exhibit LK-10.**
- (b) What is the source of the debt/equity capital structure used in the calculation in Confidential Exhibit LK-10?**
- (c) Does Mr. Kollen contend that Kentucky Power's rates should be determined using a 50/50 debt/equity capital structure?**

RESPONSE:

- (a) The premise of the question is incorrect. Mr. Kollen merely assumed that the imputed debt would be offset by an equivalent amount of common equity.
- (b) The premise of the question is incorrect. There is no assumption regarding capital structure other than that identified in response to part (a) of this question.
- (c) No.

13. Please refer to Mr. Kollen's testimony at page 5, lines 1-23, and page 6, lines 1-13.

- (a) **Has Mr. Kollen reviewed the Interconnection Agreement Between Appalachian Power Company, Kentucky Power Company, Ohio Power Company, Columbus Southern Power Company, Indiana & Michigan Electric Company with the American Electric Power Service Company as Agent, dated July 6, 1951, as modified ("AEP Pool Agreement")?**
- (b) **Please confirm that Kentucky Power is a capacity deficit member under the terms of the AEP Pool Agreement.**
- (c) **Please confirm that by entering into the wind purchase power agreement that is the subject of this proceeding Kentucky Power will reduce the amount of capacity charge payments it makes under the AEP Pool Agreement.**
- (d) **Please confirm that the wind purchase power agreement that is the subject of this proceeding will increase the amount of primary energy receipts received by Kentucky Power from other AEP-East companies under the AEP Pool Agreement.**

RESPONSE:

- (a) Yes.
- (b) Confirmed.
- (c) Confirmed; however, that would be true regardless of the source of the capacity.
- (d) Confirmed, all else equal.

14. Please refer to page 11, lines 18-22. Mr. Kollen filed testimony on behalf of KIUC in Case No. 2009-00459.
- (a) Please identify where in Kentucky Power’s application in Case No. 2009-00459 Kentucky Power is seeking “an increase in the common equity ratio and a reduction in the debt ratio,” as a result of the proposed wind power purchase agreement that is the subject of this proceeding.
 - (b) Please calculate any increase in the Company’s revenue requirement in Case No. 2009-00459 as a result of the claimed increase in the common equity ratio and a reduction in the debt ratio,” as a result of the proposed wind power purchase agreement that is the subject of this proceeding.

RESPONSE:

- (a) The Company has not proposed a specific adjustment to common equity for this purpose. Such an effect will occur in the future if the Commission approves the contract and the rating agencies impute the debt equivalent.
- (b) Please refer to the response to part (a) of this question.

15. Please refer to page 10, lines 4-11 of Mr. Kollen’s testimony. Please provide copies of all orders of the Kentucky Public Service Commission where the Commission applied the Kentucky Power System Sales Clause with respect to energy generated by some but not all generation sources.

RESPONSE:

Mr. Kollen is not aware that the Commission has applied the SSC differently among generation sources; the SSC represents a sharing of all OSS margins over a threshold level. It should be noted that it is the Company that is seeking to create a disconnect by including the cost of a new generation source in base rates, but excluding the related OSS margins from the threshold that will be used in the SSC. To Mr. Kollen’s knowledge, the Commission never has approved a disconnect whereby a single generation source is singled out and excluded from the threshold.

16. Please refer to page 7, lines 16-23 and page 8, lines 1-6 of Mr. Kollen’s testimony. Does Mr. Kollen intend that SCW-3 fails to recognize transmission costs as they relate to point-to-point service?

RESPONSE:

In response to KIUC 2-3 in Case No. 2009-00459, the Company stated that “[n]o transmission cost was assumed for the wind power purchases” on Exhibit SCW-3.