COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2012-000578

<u>COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.</u>

Kentucky Industrial Utility Customers, Inc. ("KIUC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and eight copies of the following information, with a copy to all parties of record. The information requested herein is due by April 22, 2013. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath, or for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KIUC shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made, or though correct when made, is now incorrect in any material respect. For any request to which KIUC fails or refuses to furnish all or part of the requested information, KIUC shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 5, lines 8-12 of the Direct Testimony of Lane Kollen ("Kollen Testimony,") which states, "The KIUC proposal to acquire 20% of the Mitchell units, combined with a Big Sandy 1 conversion to natural gas, promotes fuel diversity. The KIUC proposal also increases jobs and local property taxes in Kentucky, as well as reducing the property taxes and B&O taxes paid to the state of West Virginia." Provide the following:

a. The amount of capacity in MWs that is assumed to be available from a conversion of Big Sandy 1 to natural gas.

b. A description of the number of full-time jobs that will be available at Big Sandy Unit 1 once it is converted to natural gas.

c. A description of the property tax rate that will be applicable to Big Sandy Unit 1 once it has been converted to natural gas, and an estimate of Kentucky Power Company's ("Kentucky Power") annual property tax expense payable once Big Sandy Unit 1 has been converted to natural gas.

d. A description of the West Virginia property tax rate and the B&O tax rates applicable to the Mitchell Station, and an estimate of Kentucky Power's annual West Virginia property tax expense and annual B&O taxes associated with a 50 percent ownership of the Mitchell Station.

e. An explanation of how the retirement of Big Sandy 2 and the repowering of Big Sandy 1 to natural gas firing will result in both increased jobs and increased local property taxes in Kentucky.

2. Refer to page 5, lines 14-17 of the Kollen Testimony, which states, "The Company's plan unnecessarily exposes customers to increasingly stringent environmental requirements imposed by the U.S. EPA and the resulting costs and/or premature retirement and replacement of coal-fired capacity." State whether Mr. Kollen believes that future reliance on natural gas-fired capacity could similarly expose customers to increasingly stringent environmental requirements and the resulting costs and/or premature retirement and replacement of natural gas-fired capacity.

3. Refer to Kollen Testimony, page 5, lines 20-27, which states, "The Company's proposal to acquire 50% of the Mitchell capacity, and to acquire it before Big Sandy 2 is retired, unnecessarily exposes customers to merchant generator risk, with vast quantities of energy sold into an extremely depressed PJM market. The Company proposal will result in a reserve margin of more than 100% in July 2014 and more than

140% in other non-peak months before Big Sandy 2 is retired. The KIUC recommendation to acquire 20% of the Mitchell Station and to delay the acquisition until June 1, 2015 lessens this risk exposure."

a. Under Kentucky Power's proposal to acquire 50 percent of the Mitchell Station, provide Kentucky Power's reserve margin during its peak month.

b. If Kentucky Power acquires 20 percent of the Mitchell Station and retires Big Sandy 2 by January 1, 2014, state with explanation whether the merchant generator risk would also be lessened, and whether it would be cost effective to do so.

c. Refer to Kentucky Power's response to Commission Staff's Third Information Request, Item No. 13, in Case No. 2011-00401.[1] State whether KIUC agrees that both of the units at the Mitchell Station are dispatched before both of the units at the Big Sandy Station, and that this means that the units at the Mitchell Station have lower variable costs than the units at the Big Sandy Station. If the response is no, explain.

d. Refer to Kentucky Power's response to Staff's Second Request for Information, Item No. 4, which states that the Mitchell Unit 1's fuel cost is approximately 11 to 12 percent less than the fuel cost for Big Sandy Unit 2. State whether this lower fuel cost supports the position that the variable costs of the units at the Mitchell Station are lower than the variable cost of the units at the Big Sandy Station.

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[1] Case No. 2011-00401, Application of Kentucky Power Company for Approval of Its 2011 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities (Ky. PSC May 31, 2012).

4. Refer to page 6, lines 17-22, of the Kollen Testimony which state:

> The Company's Strategist modeling assumes that all OSS margins are flowed through to customers. KIUC accepts and agrees with this assumption; however, this assumption is inconsistent with the present configuration of the System Sales Clause ("SSC") component of the Company's Fuel Adjustment Clause ("FAC") mechanism, which allows the Company to retain 40% of the OSS margins above the amount included in base rates. If the Company is authorized to acquire the Mitchell units, whether 20% or 50%, then the Commission should revisit the SSC sharing. Acquiring 50% Mitchell 17 months before Big Sandy 2 retires will create vast quantities of energy for sales into PJM Market. If customers will be responsible for all of the Mitchell fixed costs through base rates and the ECR, then the entirety of the related OSS margins should be flowed through to customers, not only 60% of those margins.

a. State whether it is KIUC's position that Kentucky Power's retail customers receive only 60 percent of the benefit relating to off system sales ("OSS") margins.

b. State with explanation whether there is a certain level of OSS margins currently included in Kentucky Power's base rates, and whether customers receive 100 percent of the benefits relating to that level of OSS margins.

c. If Kentucky Power acquires some percentage of interest in the Mitchell Station, state whether KIUC recommends that the level of OSS margins included in Kentucky Power's base rates be adjusted to reflect the potential for additional capacity and energy sales.

5. Refer to page 8, lines 19 through 23 of the Kollen Testimony. Provide the details concerning the PJM reserve margin forecasts that support KIUC's 20 percent Mitchell transfer recommendation.

6. Refer to page 22, lines 6 through 8 of the Kollen Testimony. Provide support for the statement, "Ohio Power Company will continue to receive a form of cost-based recovery for the Mitchell units through May 31, 2015 . . . ."

7. Refer to page 32, lines 20 through 22 of the Kollen Testimony. Under the scenario in which the customers receive 100 percent of the OSS margins, state with explanation whether Kentucky Power would be provided sufficient incentive to aggressively pursue the sales.

8. Section H of the Kollen Testimony indicates that Kentucky Power's fixed Operations and Maintenance assumptions in Strategist are understated compared with Kentucky Power's rate-impact analysis. State whether Mr. Kollen or any of his associates ran any models or prepared any estimates as to whether the changes identified would alter Kentucky Power's conclusions in any significant way, i.e. the acquisition of 50 percent of Mitchell using both the Kentucky Power resource plan assumptions and the impairment analysis assumptions.

9. Refer to page 11, line 5 of the Direct Testimony of Philip Hayet ("Hayet Testimony"). Provide the source of the $758 per kW figure. If this is a calculated amount, provide all supporting calculations.

10. Refer to page 12, lines 13-15 of the Hayet Testimony, which state that "KIUC's analyses" investigated options in which 20 percent of the Mitchell Plant would be acquired.

a. Explain why options involving 20 percent purchase of the Mitchell Plant were analyzed.

b. State whether other percentage ownership options were analyzed, and if not, explain why not.

c. If other percentages were analyzed, provide the results of those analyses.

11. Refer to page 17, lines 10-12 of the Hayet Testimony, which state that the 2013 EIA forecast served as a basis for the commodity gas price forecast used in the KIUC analysis. Provide the commodity gas price forecast that was actually used in the forecast, including a detailed explanation of how the forecasted values were derived.

12. Refer to page 21, lines 7-9 of the Hayet Testimony.

a. Describe the sensitivity analyses performed and specify the alternative market capacity prices used for the analyses.

b. Provide a comparison of the market capacity prices used in the KIUC analysis relative to the market capacity prices used in Kentucky Power's analysis.

13. Refer to page 23, lines 18-19 of the Hayet Testimony.

a. For purposes of the KIUC analysis described, specify the coal that KIUC assumed would be burned at the Mitchell Plant.

b. Provide the updated coal forecasts used in the KIUC analysis.

c. Describe the calculation used to update the coal price forecasts.

14. Refer to page 27 of the Hayet Testimony. Table 3 contains a comparison of the analysis performed using the Kentucky Power impairment analysis assumptions for the proposed 50 percent purchase of the Mitchell Plant and the KIUC's proposed 20

percent. State whether any analysis was performed comparing both plans at 50 percent and both plans at 20 percent. If so, provide the analyses.

15. Refer to page 28, lines 12-15 of the Hayet Testimony. Provide the work papers that support the approximately $60 million in savings estimated in the testimony.

16. Refer to page 29, lines 7-9 of the Hayet Testimony. Provide support for the approximately $27 million in savings resulting from the delay in the Mitchell purchase to June 2015.

Jeff Derouen
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED APR 10 2013

cc: Parties of Record

Joe Childers
Joe F. Childers & Associates
300 Lexington Building
201 West Short Street
Lexington, KENTUCKY 40507

Ranie Wohnhas
Managing Director
Kentucky Power Company
101 A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

Shannon Fisk
Earthjustice
1617 JFK Boulevard, Suite 1675
Philadelphia, PENNSYLVANIA 19103

Kenneth J Gish, Jr.
Stites & Harbison
250 West Main Street, Suite 2300
Lexington, KENTUCKY 40507

Jennifer B Hans
Assistant Attorney General's Office
1024 Capital Center Drive, Ste 200
Frankfort, KENTUCKY 40601-8204

Kristin Henry
Staff Attorney
Sierra Club
85 Second Street
San Francisco, CALIFORNIA 94105

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202

Honorable Mark R Overstreet
Attorney at Law
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634