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March 13, 2014

RECEIVED

MAR 13 2014

PUBLIC SERVICE
COMMISSION

Mark R. Overstreet
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HAND DELIVERED

Jeff R. Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

RE: *Application Of Kentucky Power Company For A Certificate Of Public Convenience And Necessity To Convert Big Sandy Unit 1 To A Natural Gas-Fired Unit – Case No. 2013-00430*

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of the Company's redacted responses to Staff's data requests.

A copy of the responses, along with a copy of the motion and this letter, is being served on counsel for Kentucky Industrial Utility Customers, Inc. Please do not hesitate to contact me if you have any questions.

Very truly yours,

Mark R. Overstreet

MRO

cc: Michael L. Kurtz

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION

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MAR 13 2014
PUBLIC SERVICE
COMMISSION

In the Matter Of:

THE APPLICATION OF KENTUCKY POWER COMPANY
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY AUTHORIZING KENTUCKY POWER TO)
CONVERT THE EXISTING BIG SANDY UNIT 1 TO BE)
EXCLUSIVELY FUELED BY NATURAL GAS (2) FOR)
DECLARATORY RULINGS; AND (3) FOR ALL OTHER)
REQUIRED APPROVALS AND RELIEF)

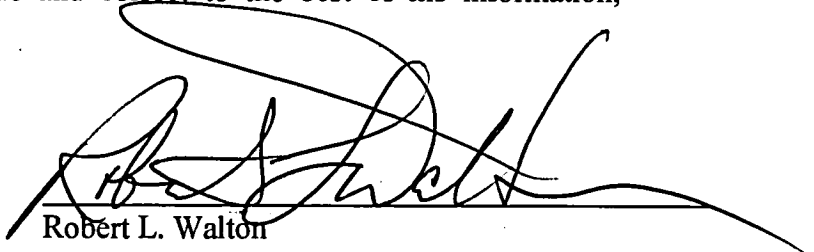
CASE NO. 2013- 00430

KENTUCKY POWER COMPANY RESPONSES TO
COMMISSION STAFF'S
SECOND SET OF DATA REQUESTS

March 13, 2014

VERIFICATION

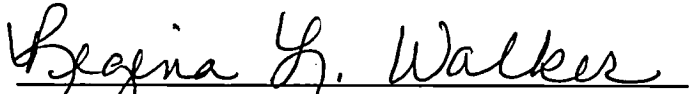
The undersigned, Robert L Walton being duly sworn, deposes and says he is Managing Director of Projects for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge and belief


Robert L. Walton

STATE OF OHIO
COUNTY OF FRANKLIN

)
) CASE NO. 2013-00430
)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Robert L. Walton, this the 7th day of March 2014.

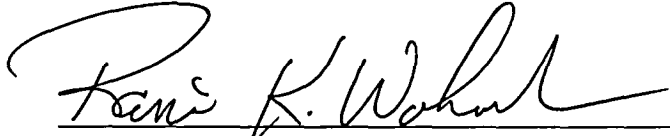

Notary Public

My Commission Expires: 03-18-2017

REGINA L. WALKER
Notary Public, State of Ohio
My Commission Expires 03-18-2017

VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief


Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY)
) Case No. 2013-00430
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 11th day of March 2014.


Judy K. Rosquist 481393
Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Refer to page 7 of the Direct Testimony of Joseph A. Karrasch ("Karrasch Testimony") where Mr. Karrasch addresses why the Request for Proposal ("RFP") excluded projects located outside of the PJM footprint. Given that Kentucky Power agreed to a New Source Review Consent Decree in 2007, explain why Kentucky Power did not investigate opportunities outside the PJM footprint prior to the RFP.

RESPONSE

AEP joined the PJM RTO on October 1, 2004. At the time Kentucky Power entered into the New Source Review Consent Decree in 2007, the AEP system had been part of the PJM RTO for over 3 years. Also, at that time, the AEP units in the Eastern system were subject to much different environmental regulatory requirements than they are today. In 2007, the first phase of the Clean Air Interstate Rule (CAIR) had not yet taken effect, but was expected to require significant reductions in SO₂ and NO_x emissions from EGUs located in the eastern U.S. in two phases. The NO_x program was scheduled to begin in 2009, and the SO₂ program in 2010, with further reductions required under both programs in 2015. Full interstate trading was allowed under CAIR, which provided substantial flexibility in designing compliance plans for large systems like the AEP system. By equipping the largest units in the AEP fleet with advanced SO₂ and NO_x controls, and trading emission allowances, it was projected that many of the smaller units like Big Sandy 1 would be able to continue to operate for many years using low sulfur coals and combustion controls for NO_x. The controls on the larger units were also expected to provide substantial mercury reductions and allow AEP to comply the Clean Air Mercury Rule (CAMR).

However, in 2008 petitions to review both CAIR and CAMR were granted by the United States Court of Appeals for the District of Columbia Circuit. CAIR was remanded to the agency, but remained in effect. CAMR was vacated. EPA set about to develop different rules to reduce emissions of SO₂, NO_x, and mercury from EGUs. EPA's replacement for CAIR, the Cross State Air Pollution Rule (CSAPR) was also overturned by the United States Court of Appeals for the District of Columbia Circuit, and CAIR remains in effect while EPA pursues an appeal in the U.S. Supreme Court and works on another replacement rule.

In 2012 EPA replaced CAMR with a new standard under section 112 of the Clean Air Act. This replacement for CAMR, the Mercury and Air Toxics Rule (MATS), requires each EGU to meet unit-specific short-term emission rates for mercury, acid gases, and non-mercury metals, and to meet work practice standards for organic hazardous air pollutants. The MATS rule required AEP to evaluate each individual unit's ability to comply with the applicable standards, and to make difficult decisions about the level of investments that could reasonably be made in certain older, less efficient units. Big Sandy Unit 1 cannot comply with the MATS standards without significant additional capital investments in advanced pollution control equipment that could not be justified economically in light of the unit's relatively small size. As a result, the Company was forced to retire the unit rather than make those additional investments.

Prior to determining that the investments required to permit Big Sandy Unit 1 to continue to operate as a coal-fired unit under MATS could not be economically justified, Kentucky Power did not pursue opportunities to replace, either inside or outside of PJM, Big Sandy Unit 1. Once it was determined that Big Sandy Unit 1 would have to be retired by 2015 to comply with MATS, Kentucky Power examined the Big Sandy Unit 1 conversion that is the subject of this proceeding and issued the RFP. The RFP was limited to PJM generation because the longer lead time and other disadvantages associated with obtaining non-PJM generation, coupled with the 2015 MATS-related deadline for retiring Big Sandy Unit 1 as a coal-fired unit, introduced uncertainties and risks into the analysis of non-PJM generation not associated with alternatives within the PJM footprint. See Testimony of Joseph A. Karrasch at 7-8.

The decision to retire Big Sandy Unit 1 as a coal-fired unit was unrelated to the requirements of New Source Review Consent Decree. Similarly, the 2007 New Source Review Consent Decree did not bear on the suitability of resources outside of the PJM footprint to replace Big Sandy Unit 1.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Refer to Section VI. Risks Associated with Proceeding with a Market Alternative beginning on page 10 of the Karrasch Testimony. Identify and explain the risks inherent to Kentucky Power's request to refuel Big Sandy Unit 1.

RESPONSE

None of the counterparty or unit condition risks associated with a market purchase alternative exist in Kentucky Power's proposed conversion of Big Sandy Unit 1 to natural gas. The limited risks that do exist in Kentucky Power's proposal are construction and execution risks and operational risks. The experience of Kentucky Power and its affiliates with similar projects mitigates against these risks.

The construction and execution risks associated with the conversion of Big Sandy Unit 1 to natural gas have been identified and quantified. These risks will be mitigated through AEP's experience in managing large capital projects, including the coal-to-gas conversions of Conesville Units 1, 2 and 3 as well as Picway Unit 5. Periodic and structured technical and cost reviews will be performed throughout each phase of the project. Additionally, scheduling tools, critical milestone monitoring, and the establishment and monitoring of specific performance and production metrics will ensure that the project will be completed in support of the initial operation date and within the project budget. Please refer to the details as provided on page 4 of Company Witness Walton's Exhibit RLW-3.

From an operational perspective, very little if any risk is envisioned. Kentucky Power is intimately knowledgeable in the physical condition of the operating unit and the gas-firing technology is well proven in both the Industrial and Utility industries. Kentucky Power's plans for managing its fuel supply are designed to minimize risks associated with fuel purchase prices. See the Company's response to KPSC 1-3.

WITNESS: Robert L Walton



Kentucky Power Company

REQUEST

Refer to Exhibit SCW-2A showing the Big Sandy Unit 1 Disposition Analysis — CONFIDENTIAL Summary. Column C of the exhibit contains the KPCo Revenue Requirement, net, to the options considered.

- a. Explain whether the options under #2B are less risky than the proposal for the Big Sandy Unit 1 Natural Gas conversion.
- b. If the answer to 3.a is affirmative, explain why one of the options under #2B was not chosen as the preferable option.

RESPONSE

- a. The options under #2B are more risky than the proposal for the Big Sandy Unit 1 Natural Gas conversion. The market and counter party risk as shown in the direct testimony of witness Karrasch pages 10-12 exceed the minimal and manageable risk identified in response to KPSC 2-2 in connection with the conversion and operation of BSU1.
- b. N/A.

WITNESS: Robert L Walton