

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC 2019 INTEGRATED RESOURCE)	CASE NO.
PLANNING REPORT OF KENTUCKY POWER)	2019-00443
COMPANY)	

ORDER

By Order issued February 15, 2021, the Commission entered into the record of this case a report summarizing Commission Staff's review (Staff Report) of the 2019 Integrated Resource Plan (IRP) filed by Kentucky Power Company (Kentucky Power), pursuant to 807 KAR 5:058. The Order granted Intervenors the opportunity to file comments regarding the Staff Report on or before February 25, 2021, and granted Kentucky Power the opportunity to respond to the Staff Report and Intervenor comments on or before March 8, 2021. The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), and Kentucky Industrial Utilities Customers, Inc. (KIUC) (jointly, Attorney General/KIUC) filed comments on February 25, 2021. Kentucky Power filed comments on the Staff Report and response to Attorney General/KIUC comments on March 8, 2021.

INTERVENOR COMMENTS

In their joint comments, the Attorney General/KIUC asserted that Kentucky Power proposed a resource plan that is "more expensive, less flexible, and more capital-intensive" than other available options, alleging that Kentucky Power prioritized investment in new capital projects, with corresponding financial benefits to Kentucky

Power from rate base investments, over options that could have produced a lower cost to customers, such as bilateral market purchases.¹ The Attorney General/KIUC put forth an alternative plan, based on Kentucky Power's input assumptions, that the Attorney General/KIUC asserted would save customers \$53 million, net present value, over the IRP planning period 2020–2034.²

Kentucky Power's preferred plan is based upon an expected need for 140 MW of capacity between 2022 and 2030 and an additional 250 MW of capacity beginning in 2031, based upon projected termination of a power purchase agreement and a generating facility. The Attorney General/KIUC explained that their primary concern is that Kentucky Power failed to properly consider market purchases for a longer period of time as the most-reasonable, least-cost option to meet Kentucky Power's capacity need with the greater degree of flexibility to account for economic and environmental issues that might arise during the IRP planning period. The Attorney General/KIUC challenged Kentucky Power's preference for solar and wind options, arguing that solar and wind is less reliable than conventional resources. The Attorney General/KIUC further argued that solar and wind provide a much smaller capacity value than other resources due to the intermittent nature of solar and wind generation, and therefore Kentucky Power will have to install significantly higher solar and wind nameplate capacity in order to obtain an equivalent capacity value from other resources.

The Attorney General/KIUC disagreed with concerns raised in the Staff Report that Kentucky Power's resource planning is misleading because it is designed to meet PJM

¹ Attorney General/KIUC Comments (filed Feb. 25, 2021) at 3.

² *Id.*

Interconnection, LLC's (PJM) reliability requirement, which is based on summer peak capacity obligation, but, as a winter peaking utility, does not properly plan to meet its winter peak demand requirement. The Attorney General/KIUC asserted that the chief advantage for Kentucky Power and East Kentucky Power Cooperative (EKPC) in joining PJM is that, as winter peaking utilities, they have to maintain less capacity to meet the PJM summer reliability requirement as opposed to meeting a higher winter peak and reserve margin as a standalone utility. The Attorney General/KIUC maintained that PJM conducts various reliability studies, determines forecast requirements for future years, and establishes a winter reserve criteria, all of which ensure reliability in summer and winter for PJM members such as Kentucky Power and EKPC.

Despite the disagreement with the Staff Report regarding Kentucky Power's capacity planning as it relates to PJM, the Attorney General/KIUC did not object to Staff's recommendations for Kentucky Power's next IRP.

KENTUCKY POWER COMMENTS

In its response to the Staff Report, Kentucky Power explained that it generally agrees with the Staff Report's overall conclusion and will strive to satisfy the Staff Report recommendations for its next IRP. Kentucky Power expressed the following concerns in complying with the recommendations:

- The recommendation to include alternative forecast scenarios could increase costs, through subscription fees paid to data sources, without a corresponding increase in value to the resource planning process.

- The requested annual and seasonal peak forecasts by customer class is not measurable without more advanced interval metering, such as advanced metering infrastructure (AMI).
- Certain modeling recommendations, including certain environmental regulations, and participation in PJM as a FRR versus RPM resource, will be moot by the time the 2022 IRP is prepared.
- The granularity of the recommended analyses of generation sources would require issuing requests for proposals for projects that bidders would be aware that Kentucky Power does not intend to actually construct, thus limit the quality of information obtained.

Regarding the Attorney General/KIUC's comments, Kentucky Power asserted that the Attorney General/KIUC's recommendations would result in increased risk of higher costs and volatility, which would be borne by customers.

DISCUSSION

Regarding the Attorney General/KIUC's contentions concerning issues raised in the Staff Report, the Attorney General/KIUC appear to misunderstand Kentucky Power's participation in PJM. First, Kentucky Power participates in PJM as a fixed resource requirement (FRR). FRR resources are expected to maintain adequate capacity to serve native load plus a reserve margin (as required by PJM), and any surplus can be sold in PJM's energy market. In contrast, EKPC participates in PJM under the Reliability Pricing Model (RPM) construct. Here, EKPC offers all of its capacity into the Base Residual Auctions (BRAs) and purchases back the amount PJM indicates is required. The value, as it relates to capacity, between the two memberships is significant. Although the

Attorney General/KIUC are correct that both EKPC and Kentucky Power are winter peaking, that fact alone does not drive benefits for both. As a winter peaking utility that participates in a summer peaking RTO auction, the value of EKPC's PJM membership as it relates to capacity is that EKPC has enough capacity to meet its winter demand, but that means EKPC is "long" during the summer. Since PJM planning is conducted using summer peaks, EKPC is able to monetize being "long" on generation in the summer by selling more capacity into the BRA than it must purchase. Contrary to the Attorney General/KIUC's suggestion, the value of EKPC's membership in PJM's BRA is not that EKPC will or is maintaining less capacity than necessary to serve its native load. Nevertheless, the self-supply construct that FRR seeks to satisfy is intended to allow utilities who have sufficient generation to choose to not participate in the BRA. Advocating to explicitly not have enough generation to satisfy retail demand, and using the remaining PJM members as a backstop is contrary to the FRR construct and Kentucky Power's obligation of service under Kentucky law.

Regarding Kentucky Power's concerns related to certain recommendations in the Staff Report, Kentucky Power may schedule a meeting with Commission Staff and stakeholders prior to undertaking Kentucky Power's 2022 IRP planning to discuss the concerns and recommendations to ensure that Kentucky Power is providing the type of data that Staff requested in a cost-effective manner and in sufficient level of granularity.

Based on the evidence of record and being sufficiently advised, the Commission finds that:

1. The Staff Report's recommendation that the filing date of Kentucky Power's next IRP be December 20, 2022, should be adopted.

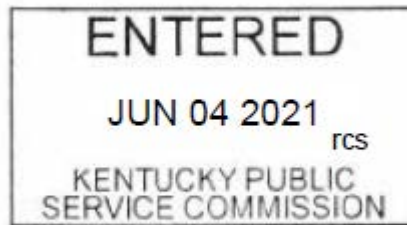
2. The Staff Report represents the final substantive action in this matter, and this case should be closed and removed from the Commission's docket.

IT IS THEREFORE ORDERED that:

1. Kentucky Power shall file its next IRP no later than December 20, 2022.
2. This case is closed and removed from the Commission's docket.

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By the Commission



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