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PLEASE RESPOND TO:
KINGSPORT OFFICE

February 7, 2012

KPOW.86949

filed electronically in docket office on 02/07/12
Docket No. 12-00012

Dr. Kenneth C. Hill, Chairman
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: Petition for Approval of Demand Response Program and Associated Demand Response Tariffs on behalf of Kingsport Power Company d/b/a AEP Appalachian Power

Dear Chairman Hill:

On behalf of Kingsport Power Company d/b/a AEP Appalachian Power, we have filed electronically and hereby submit the original and four copies of the PETITION FOR APPROVAL OF DEMAND RESPONSE PROGRAMS AND ASSOCIATED DEMAND RESPONSE TARIFFS.

Included with the PETITION are the following EXHIBITS:

EXHIBIT 1: Proposed PSDR Tariff;

EXHIBIT 2: Proposed PSEDR Tariff;

EXHIBIT 3: Pre-Filed Testimony of James Martin;

EXHIBIT 4: Phase I Order and Demand Response Service – Emergency Rider, State of Indiana, Indiana Utility Regulatory Commission (Cause No. 43566, PJM1); and

EXHIBIT 5: Final Order Approving Demand Response Programs, Commonwealth of Virginia, Virginia State Corporation Commission (Case PUE-2011-00001).

Please have Ms. Dillon return one "stamped" copy of the Petition with Exhibits for our file in the enclosed self-addressed, stamped envelope.

Also enclosed is a check in the amount of $25.00 to cover the filing fees. If you have any questions, please contact our office.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender

WCB/sel

Enclosures

c: James R. Bacha, Esq. (via email)
William A. Bosta (via email)
Hector Garcia, Esq. (via email)
Jennifer Sebastian (via email)
James F. Martin (via email)

BEFORE THE

TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In Re:

PETITION FOR APPROVAL OF DEMAND RESPONSE PROGRAMS AND ASSOCIATED DEMAND RESPONSE TARIFFS

Docket No.: ____________

PETITION FOR APPROVAL OF DEMAND RESPONSE PROGRAMS AND ASSOCIATED DEMAND RESPONSE TARIFFS

Comes Kingsport Power Company d/b/a AEP Appalachian Power ("KgPCo"), and, pursuant to T.C.A. § 65-2-107 and Rule 1220-1-2-.02 of the Rules and Regulations of the Tennessee Regulatory Authority ("TRA"), seeks the approval of the TRA of two Demand Response Tariffs ("DR Tariffs"), which would provide two Demand Response Programs to KgPCo's customers, as set forth herein below:

1. KgPCo, a subsidiary of American Electric Power Company, Inc., ("AEP"), is a public utility corporation organized and existing under the laws of the Commonwealth of Virginia, doing business in the State of Tennessee, with its principal place of business located at 420 Riverport Road, Kingsport, Sullivan County, Tennessee. KgPCo is the electric distribution company to approximately 47,000 customers in its service territory, which consists of portions of Sullivan and Hawkins Counties, Tennessee, including the City of Kingsport, Tennessee.

2. All correspondence and communications with respect to this Petition should be sent to the following on behalf of KgPCo:

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3. The purpose of this Petition on behalf of KgPCo is to obtain TRA approval of two DR Programs and associated DR Tariffs which KgPCo seeks to offer in its service territory: the Peak Shaving Demand Response Program ("PSDR Program") and associated Peak Shaving Demand Response Tariff ("PSDR Tariff"); and, the Peak Shaving and Emergency Demand Response Program ("PSEDR Program") and associated Peak Shaving and Emergency Response Tariff ("PSEDR Tariff").

4. Under current FERC rules and the Open Access Transmission Tariff ("OATT") of PJM Interconnection LLC, ("PJM"), PJM offers certain DR Programs. One of the requirements for participation in PJM's DR Programs is that in the case that an end-user customer is serviced by an electric distribution company which delivers 4 million MWh or less per fiscal year, any

demand response program offered to said end-use customer must first be approved by the "Relevant Electrical Retail Regulatory Authority", which, in this case, is the TRA. KgPCo distributed 4 million MWh or less in its service territory in the immediately preceding fiscal year. To date, the TRA has not approved any DR Program in the service territory of KgPCo. However, in TRA Docket No. 11-00039, the TRA did issue a Consent Order permitting certain end-use customers of KgPCo and their Curtailment Service Providers ("CSP") to continue their participation in the Demand Response Programs of PJM Interconnection, LLC ("PJM") for the period June 1, 2011 – May 31, 2012. KgPCo and Eastman Chemical Company were allowed to jointly intervene in said Docket No. 11-00039, which was initiated by Demand Response Partners, Inc. Said Consent Order stated:

> "8. KgPCo currently does not offer a demand response program, but intends in the near future to seek approval of one or more demand response tariff schedules that would offer advantages to certain customers willing to receive service under the terms of the tariff schedules as established by KgPCo and approved by TRA." (Consent Order, FINDINGS AND CONCLUSIONS, p. 4)

> "5. The Petition and this Consent Order shall not be construed as a waiver of any rights of the parties to the extent TRA permission to participate is not required or with respect to PJM Demand Response Program in effect after the expiration of the June 1, 2011 – May 31, 2012 program participation, and the parties preserved all their rights and arguments in connection with the permissibility of offering or participating in any such programs." (Consent Order, p. 5).

(Reference is hereby made to said Docket No.: 11-00039)

5. The DR Tariffs at issue are being filed as part of KgPCo's effort to manage its peak load, its overall load shape, its contribution to Appalachian Power Company's ("APCo's") peak load, and its purchased power costs. KgPCo purchases all of its power from APCo, also a subsidiary of AEP, at rates approved by the Federal Energy Regulatory Commission. KgPCo proposes to enroll up to 60 MW of load between the two DR Programs.

6. The following Exhibits are submitted in support of this Petition:

Exhibit 1: Proposed PSDR Tariff;

Exhibit 2: Proposed PSEDR Tariff;

Exhibit 3: Pre-Filed Testimony of James F. Martin;

Exhibit 4: Phase I Order and Demand Response Service – Emergency Rider, State of Indiana, Indiana Utility Regulatory Commission (Cause No. 43566 PJM1); and

Exhibit 5: Final Order approving demand response programs, Commonwealth of Virginia, Virginia State Corporation Commission (Case No. PUE-2011-00001).

7. The proposed PSDR and PSEDR Programs would offer options on a voluntary basis to non-residential customers who are taking firm service from KgPCo and who have the ability to curtail load under the provisions of either DR Tariff. These DR Programs are described in detail in the pre-filed testimony of James F. Martin. (EXHIBIT 3).

8. Successful implementation of the PSDR Tariff would result in a reduced allocation of costs from APCo to KgPCo relative to what the allocation would be without it. The PSDR Tariff (EXHIBIT 1) would provide immediate benefits to participating KgPCo customers and benefits to all customers in the future in the form of cost savings that will result from reduced demand. Both KgPCo's and APCo's highest annual peak loads typically occur on cold winter mornings. KgPCo's participating customers would be requested to reduce load during APCo's peak periods. Under the PSDR Tariff, KgPCo would have the option to request curtailments up to ten (10) times for not more than six (6) hours at any time of day on any day of the week during the months December through March. Contracts entered into pursuant to the

PSDR Tariff would be for an initial term of one (1) year and remain in effect until either party gives ninety (90) day notice of termination prior to December 1. Subject to TRA approval, KgPCo reserves the right to cancel or make changes to the terms and conditions of the PSDR Tariff, including but not limited to, the compensation methods as appropriate.

9. Successful implementation of the PSEDR Tariff would allow KgPCo to request customers to curtail for both peak-shaving reasons and for emergencies. Similar to the PSDR Tariff, curtailments of up to ten (10) in number for not more than six (6) hours each could be requested by KgPCo under the PSEDR Tariff. Unlike PSDR, these curtailments under PSEDR for peak-shaving reasons could be requested at any time of day and of any day of the year. The PSEDR Tariff would also allow for ten (10) curtailments of not more than six (6) hours each for PJM-declared emergencies. Contracts under the PSEDR Tariff would be for an initial term of four (4) years and remain in effect until either party provides three years' written notice of its intention to discontinue service. Subject to TRA approval, KgPCo reserves the right to cancel or make changes to the terms and conditions of the PSEDR Tariff so as to permit KgPCo, among other changes, to alter the compensation method and allow the PSEDR Tariff to continue to qualify under the PJM Demand Response Program.

10. There are two customer compensation elements to each Tariff: A Monthly Demand Credit and a Monthly Event Credit, which are discussed in the pre-filed testimony of Mr. Martin. (EXHIBIT 3).

11. The emergency curtailment provisions of the PSEDR Tariff will allow AEP to register the demand response capability contracted under KgPCo's PSEDR Program with PJM to

help meet AEP's PJM capacity obligations. It will also allow KgPCo the ability to curtail load at its sole discretion for emergencies, which can result in reduced power costs.

12. Pursuant to the Consent Order in Docket No. 11-00039, any agreements between KgPCo customers and any third party CSPs in KgPCo's service territory remain in place only through May 31, 2012. With the approval of the PSEDR Tariff, the customers who opt for the PSEDR Program will have their PSEDR capacity enrolled in the PJM demand response program through KgPCo, subject to any PJM restrictions. KgPCo customers would not be eligible to enroll in any PJM demand response program either directly or through a CSP. KgPCo's customers participating in the PSEDR Program may elect to use the services of CSPs provided that such arrangements do not violate the terms and conditions of the PSEDR Tariff. This arrangement is similar to one approved by the Indiana Utility Regulatory Commission as a result of filings of Indiana Michigan Power Company, also a subsidiary of AEP. The Indiana Order is EXHIBIT 4 hereto.

13. APCo filed an Application with the Virginia State Corporation Commission for approval of PSDR and PSEDR Programs similar to those in this Petition on January 3, 2011. (See, Application of Appalachian Power Company Pursuant to Chapters 752 and 855 of the 2009 Acts of the Virginia General Assembly for approval of demand response programs to be offered to its retail customers. Case No. PUE-2011-00001). The Virginia State Corporation Commission approved said programs for implementation by Final Order dated September 12, 2011 (EXHIBIT 5).

14. KgPCo respectfully requests permission to defer any costs it will incur associated with these DR Programs and Tariffs, including, but not limited to, payments made to participating customers, until recovery of these costs can be addressed in a future proceeding.

PREMISES CONSIDERED, Kingsport Power Company d/b/a AEP Appalachian Power requests the following action from the Tennessee Regulatory Authority:

1. Approval of the PSDR Program and PSDR Tariff for implementation by KgPCo;

2. Approval of the PSEDR Program and PSEDR Tariff for implementation by KgPCo;

3. Authority to defer the costs associated with the PSDR Program and associated PSDR Tariff and the PSEDR Program and associated PSEDR Tariff, subject to a separate proceeding on cost recovery.

Respectfully submitted,
Kingsport Power Company, d/b/a
AEP Appalachian Power

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Counsel for Kingsport Power Company

TARIFF PSDR
(Peak Shaving Demand Response Rider)

AVAILABILITY OF SERVICE

This demand response program is available on a voluntary basis to non-residential customers who are taking firm service from the Company. Program participants must have the ability to curtail load under the provisions under this Tariff. Each customer electing to participate in the program shall contract for a definite amount of PSDR capacity, not to exceed the customer's normal demand capable of being curtailed.

The Company reserves the right to limit the aggregate amount of PSDR capacity contracted for under this Tariff and the Peak Shaving and Emergency Demand Response Rider (PSEDR) to 60 MW. Program enrollment requests will be taken in the order received. Customers electing to participate in this program are not eligible to participate in the demand response program offered under Tariff PSEDR.

Customers participating in this Rider may elect to use the services of CSPs provided that such arrangements do not violate the terms and conditions of this Rider. The customer may designate a PJM-qualified CSP to facilitate all or some of the customer notifications and transactions under this Rider. The customer must provide written notice to the Company of any such designation. Such written notice shall specify the authority that the customer has granted to the CSP, including any authority to access customer data. The customer is ultimately responsible for compliance with the terms and conditions of this Rider, including any charges under this Rider, in which the customer has voluntarily elected to participate.

CONDITIONS OF SERVICE

(1) The Company reserves the right to cancel or make changes to the terms, including the compensation calculation methods, of this Tariff, as appropriate.

(2) The Company reserves the right to call for (request) customers to curtail their PSDR loads when, in the Company's sole judgment, a curtailment is necessary to reduce the Company's load. Curtailment requests can be made at any time of day and on any day of the week.

(3) The Company will endeavor to provide as much advance notice as possible of curtailments under this Tariff including an estimate of the duration of such curtailments. However, the customer's PSDR capacity shall be curtailed within ninety (90) minutes if so requested.

(4) In no event shall the customer be subject to load curtailment under the provisions of this Tariff for more than ten (10) interruptions during any December through March period. Each interruption shall last no more than six (6) hours. The customer must agree to be subject to curtailments of up to six (6) consecutive hours' duration for each curtailment event.

(5) The Company will inform the customer regarding the communication process for notices to curtail. The customer is ultimately responsible for receiving and acting upon a curtailment notification from the Company. The customer is not responsible in the event the Company fails to properly issue a curtailment notification.

(6) During each December through March period the Company may conduct a test and verify the customer's ability to curtail. However, if a curtailment event is called prior to the test, then the event shall be considered the test for that period.

(7) If the customer fails to comply with the provisions of curtailment under this Schedule, the Company and the customer will discuss methods to comply during future events. If the problem cannot be resolved to the Company's satisfaction, the Company reserves the right to terminate the customer's participation in the program.

(8) The minimum PSDR capacity contracted for under this Tariff will be 250 kW. Entities with multiple electric service accounts may aggregate those individual accounts to meet the 250 kW minimum capacity requirement; however, the PSDR capacity committed for each individual account shall not be less than 50 kW.

(9) An interval meter is required. If the customer does not have one, the Company will install one at no cost to the customer.

(10) **NO RESPONSIBILITY OR LIABILITY OF ANY KIND SHALL ATTACH TO OR BE INCURRED BY THE COMPANY OR THE AEP SYSTEM FOR, OR ON ACCOUNT OF, ANY LOSS, COST, EXPENSE, OR DAMAGE CAUSED BY OR RESULTING FROM, EITHER DIRECTLY OR INDIRECTLY, ANY CURTAILMENT OF SERVICE UNDER THE PROVISIONS OF THIS SCHEDULE.**

TARIFF PSDR
(Peak Shaving Demand Response Rider)

CUSTOMER BASELINE LOAD CALCULATION

A Customer Baseline Load (CBL) will be calculated for each hour corresponding to each curtailment event hour. Normally, the CBL will be calculated for each hour as the average corresponding hourly demands from the highest four (4) out of the five (5) most recent similar non-event days in the period preceding the relevant curtailment event. The highest load days are defined as the similar days (Weekday, Saturday, Sunday/Holiday as defined by PJM) with the highest energy consumption spanning the curtailment event hours. In cases where the normal calculation does not provide a reasonable representation of normal load conditions, the Company and the customer may develop an alternative CBL calculation that more accurately reflects the customer's normal consumption pattern.

CURTAILED DEMAND

The customer's Curtailed Demand shall be determined based upon the method of measurement chosen by the customer. The customer may choose one of two methods to measure the curtailed demand: 1) Guaranteed Load Drop (GLD) or 2) Firm Service Level (FSL). The method chosen shall remain in effect for the entire contract period.

(1) GUARANTEED LOAD DROP METHOD

(a) Each customer must designate a Guaranteed Load Drop (GLD), which amount shall be the minimum demand reduction that the customer will provide for each hour during a curtailment event or during a curtailment test.

(b) If the customer fails to fully comply with a request for curtailment under the provisions of this Tariff or does not reduce load to below the CBL by the full GLD, a non-compliance charge shall apply. For this purpose, Actual Load Drop (ALD) is defined as the difference between the customer's CBL and their actual hourly load. If in any hour of a curtailment event the ALD is less than the GLD, the Non-Compliance Demand shall be equal to the difference between the GLD and the ALD. Otherwise, the Non-Compliance Demand shall be zero (0).

(2) FIRM SERVICE LEVEL (FSL) METHOD

(a) Firm Service Level Peak Load Contribution (PLC) – The customer's PLC will be calculated each year as the average of its load during the Company's five (5) highest daily peak loads during the previous December through March period, adjusted to add-back any load curtailments requested by the Company during those five (5) hours. The customer's PLC shall be adjusted for any material change in the customer's operations, including a change in the hours of operation that have occurred since the previous December through March period, and have increased or decreased the customer's load available for curtailment.

(b) Available Curtailable Demand (ACD) - The customer must designate an ACD, defined as the difference between the PLC and the Firm Service Level (FSL). The FSL is the demand to which the customer agrees to reduce load to or below for each hour during a curtailment event.

(c) If the customer fails to fully comply with a request for curtailment under the provisions of this Schedule, then the Non-Compliance Charge shall apply. If a customer is operating at or below their designated FSL during an event, it will be understood that they have no PSDR capacity available with which to comply and will not be charged a non-compliance penalty. If in any hour of a curtailment event the metered demand is above the FSL, the Non-Compliance Demand shall be equal to the difference between the customer's metered demand and the FSL. Otherwise the Non-Compliance Demand shall be zero (0).

TARIFF PSDR
(Peak Shaving Demand Response Rider)

CURTAILED ENERGY

The Curtailed Energy shall be determined for each curtailment event hour, defined as the difference between the customer's CBL for that hour and the customer's metered load for that hour.

CURTAILMENT CREDITS

The **Curtailment Energy Credit** shall be 90% of the AEP East Load Zone hourly Real-Time Locational Marginal Price (LMP) established by PJM (including congestion and marginal losses) for each curtailment event hour.

The **Curtailment Demand Credit** shall be calculated in $/kW-year as the greater of (a) the four-year average PJM Reliability Pricing Model (RPM) Limited DR Base Residual Auction Clearing price for the applicable locational delivery area, calculated using the preceding delivery year, the current delivery year and the subsequent two (2) delivery years and (b) 35% of the applicable RPM Net Cost of New Entry (Net CONE) for the delivery year. Delivery years are from June 1 to May 31 as defined by PJM.

The Curtailment Demand Credit for the December 1, 2011 through March 31, 2012 contract period is as follows:

Delivery Year	RPM Clearing Price ($/MW-day) (a)	2011/2012 Net CONE ($/MW-day)	35% of Net CONE ($/MW-day) (b)	Greater of (a) and (b) ($/MW-day)	Annual Curtailment Demand Credit * ($/kW-year)	Curtailment Demand Credit Paid Each of 4 Months **
June 1, 2010 to May 31, 2011	$174.29					
June 1, 2011 to May 31, 2012	$110.00					
June 1, 2012 to May 31, 2013	$16.46					
June 1, 2013 to May 31, 2014	$27.73					
Four-Year Average Price	$82.12					
Amount		$171.40	$59.99	$82.12	$29.974	$7.493

* Curtailment Demand Credit in $/kW-year calculated as $/MW-day times 365 divided by 1,000.
****** Curtailment Demand Credit converted to be paid over 4 months = $29.974 divided by 4.

TARIFF PSDR
(Peak Shaving Demand Response Rider)

MONTHLY DEMAND CREDIT

The Monthly Demand Credit shall be paid regardless of whether or not there are any curtailment events during the month, based on the method selected by the customer as follows:

1. GUARANTEED LOAD DROP METHOD - The Monthly Demand Credit shall be equal to the product of the GLD and the Curtailment Demand Credit.

2. FIRM SERVICE LEVEL METHOD – The Monthly Demand Credit shall be equal to the product of the ACD and the Curtailment Demand Credit.

MONTHLY EVENT CREDIT

An Event Credit shall be calculated for each event hour equal to the product of the Curtailed Energy for that hour and the Curtailment Energy Credit for that hour. The Monthly Event Credit shall be the sum of the hourly Event Credits for all events occurring in the calendar month, but shall not exceed the portion of the customer's monthly bill that is computed on a per kWH basis under the applicable firm service tariff for the same billing month. The customer shall not receive Event Credit for any curtailment events to the extent that the customer's PSDR capacity is already reduced due to a planned or unplanned outage as a result of vacation, renovation, repair, refurbishment, force majeure, strike, economic conditions, or any situation other than the customer's normal operating conditions. Event Credits will not be withheld if the customer's PSDR capacity is already reduced as a result of customer actions taken in anticipation of a curtailment.

NON-COMPLIANCE CHARGE

Charges for non-compliance will be based on the customer's Non-Compliance Demand which reflects any failure by the customer to fully comply with requests for curtailment under the provisions of this Schedule. The Non-Compliance Charge will be computed at the completion of the March delivery month each year and will be invoiced to the customer in May. The Non-Compliance Charge shall be equal to the average Non-Compliance Demand during all curtailment event hours times 110% of the Curtailment Demand Credit times 4.

CUSTOMER CREDIT

The net amount of the Monthly Demand Credit and Monthly Event Credit will be provided within 60 days after the end of the delivery month. A customer may request the aggregation of individual customer account credits into a single credit. The Company reserves the right to apply amounts owed to the customer to any unpaid balance owed to the Company for electric service provided.

TERM

Contracts under this Tariff shall be made for a minimum initial period of one (1) year and shall remain in effect until either party provides ninety (90) days' written notice prior to December 1 of its intention to discontinue participation in the program. The customer will earn the Customer Credit beginning in the December delivery month for contracts signed from March to November. For contracts executed from December through February, Customer credits will be earned beginning in the following delivery month.

TARIFF PSDR
(Peak Shaving Demand Response Rider)

SPECIAL TERMS AND CONDITIONS

Customer specific information, including, but not limited to PSDR contract capacity, shall remain confidential unless specified in writing by the customer.

If a new peak demand is set by the customer in the hour following a curtailment event due to the customer resuming the level of activity prior to the curtailment, the customer may request, in writing, that the customer's billing demand be adjusted to disregard that new peak. The Company will promptly evaluate all such requests and approve reasonable requests. In specific circumstances and subject to reasonable conditions, the Company may approve requests in advance.

TARIFF PSEDR
(Peak Shaving and Emergency Demand Response Rider)

AVAILABILITY OF SERVICE

This demand response program is available on a voluntary basis to non-residential customers who are taking firm service from the Company and who are not participating in a demand response program either directly through PJM or through a Curtailment Service Provider (CSP). Program participants must have the ability to curtail load under the provisions under this Tariff. Each customer electing to participate in the program shall contract for a definite amount of PSEDR capacity, not to exceed the customer’s normal demand capable of being curtailed.

The Company reserves the right to limit the aggregate amount of capacity contracted for under this Tariff and the Peak Shaving Demand Response Rider (PSDR) to 60 MW. Program enrollment requests will be taken in the order received. The customer’s PSEDR capacity under this Tariff will be enrolled in the PJM Interconnection, L.L.C. (PJM) Demand Response Program through the Company and subject to any PJM restriction. Customers electing to participate in this program are not eligible to participate in the demand response program offered under Tariff PSDR.

The customer’s demand response service is not eligible for enrollment in any PJM demand response program either directly or through a PJM-qualified curtailment service provider (CSP). Customer’s participating in this Rider may elect to use the services of CSPs provided that such arrangements do not violate the terms and conditions of this Rider. The customer may designate a PJM-qualified CSP to facilitate all or some of the customer notifications and transactions under this Rider. The customer must provide written notice to the Company of any such designation. Such written notice shall specify the authority that the customer has granted to the CSP, including any authority to access customer data. The customer is ultimately responsible for compliance with the terms and conditions of this Rider, including any charges under this Rider, in which the customer has voluntarily elected to participate.

CONDITIONS OF SERVICE

(1) Capacity contracted under this Tariff qualifies for inclusion in the PJM Demand Response Program as of the effective date. The Company reserves the right to cancel or make changes to the terms, including the compensation calculation methods, of this Tariff in order to continue to qualify under the PJM Demand Response Program, as appropriate.

(2) The Company reserves the right to call for (request) customers to curtail their PSEDR load when an Emergency Mandatory Load Management Reduction Action has been issued by PJM.

(3) The Company reserves the right to call for (request) customers to curtail their PSEDR load when, in the sole judgment of the Company, conditions exist that require the Company to take steps to reduce load.

(4) The Company will endeavor to provide as much advance notice as possible of curtailments under this Tariff including an estimate of the duration of such curtailments. However, the customer’s PSEDR load shall be curtailed within ninety (90) minutes if so requested.

(5) The number of emergency interruptions under this tariff shall be consistent with the provisions set forth in the PJM Limited DR Program. As of the effective date, the number of emergency interruptions shall be no more than ten (10) interruptions resulting from PJM requests during any delivery year. A delivery year is defined as June 1 through May 31. Each interruption shall last no more than six (6) hours. The customer must agree to be subject to emergency PSEDR curtailments of up to six (6) consecutive hours’ duration for each curtailment event, on weekdays between 12 noon and 8 p.m., Eastern Time, for the months May through September and between 2 p.m. and 10 p.m., Eastern Time, for the months October through April.

(6) The Company may not request more than ten (10) load management interruptions during any delivery year. Curtailment requests for load management purposes can be made at any time of day and on any day of the week. Each interruption shall last no more than six (6) hours. The customer must agree to be subject to curtailments of up to six (6) consecutive hours’ duration for each curtailment event.

(7) The Company will inform the customer regarding the communication process for notices to curtail. The customer is ultimately responsible for receiving and acting upon a curtailment notification from the Company. The customer is not responsible in the event the Company fails to properly issue a curtailment notification.

(8) An interval meter is required. If the customer does not have one, the Company will install one at no cost to the customer.

TARIFF PSEDR
(Peak Shaving and Emergency Demand Response Rider)

CONDITIONS OF SERVICE- (cont.)

(9) During each delivery year the Company will conduct a test and verify the customer's ability to curtail as required by PJM. However, if a curtailment event is called by PJM prior to the test, then the event shall be considered the test for the delivery year. The Company reserves the right to re-test all customers if the Company does not achieve the minimum 75% compliance testing standards for all of the Company's PSEDR customers as required by PJM. Additionally, the Company reserves the right to re-test individual customers that fail to comply during a test. These tests must be conducted for one hour on a weekday between 12 noon and 8 p.m., Eastern Time, from June 1 through September 30 during the delivery year.

(10) If the customer fails to comply with the provisions of curtailment under this Schedule, the Company and the customer will discuss methods to comply during future events. If the problem cannot be resolved to the Company's satisfaction, the Company reserves the right to terminate the customer's participation in the program.

(11) The minimum PSEDR capacity contracted for under this Tariff will be 250 kW. Entities with multiple electric service accounts may aggregate those individual accounts to meet the 250 kW minimum capacity requirement; however, the PSEDR capacity committed for each individual account shall not be less than 50 kW.

(12) **NO RESPONSIBILITY OR LIABILITY OF ANY KIND SHALL ATTACH TO OR BE INCURRED BY THE COMPANY OR THE AEP SYSTEM FOR, OR ON ACCOUNT OF, ANY LOSS, COST, EXPENSE, OR DAMAGE CAUSED BY OR RESULTING FROM, EITHER DIRECTLY OR INDIRECTLY, ANY CURTAILMENT OF SERVICE UNDER THE PROVISIONS OF THIS SCHEDULE.**

CUSTOMER BASELINE LOAD CALCULATION

A Customer Baseline Load (CBL) will be calculated for each hour corresponding to each curtailment event hour. Normally, the CBL will be calculated for each hour as the average corresponding hourly demands from the highest four (4) out of the five (5) most recent similar non-event days in the period preceding the relevant curtailment event. The highest load days are defined as the similar days (Weekday, Saturday, Sunday/Holiday as defined by PJM) with the highest energy consumption spanning the curtailment event hours. In cases where the normal calculation does not provide a reasonable representation of normal load conditions, the Company and the customer may develop an alternative CBL calculation that more accurately reflects the customer's normal consumption pattern.

CURTAILED DEMAND

The customer's Curtailed Demand shall be determined based upon the method of measurement chosen by the customer. The customer may choose one of two methods to measure the curtailed demand: 1) Guaranteed Load Drop (GLD) or 2) Firm Service Level (FSL). The method chosen shall remain in effect for the entire contract period.

(1) <u>GUARANTEED LOAD DROP METHOD</u>

(a) Each customer must designate a Guaranteed Load Drop (GLD), which amount shall be the minimum demand reduction that the customer will provide for each hour during a curtailment event or during a curtailment test.

(b) If the customer fails to fully comply with a request for curtailment under the provisions of this Tariff or does not reduce load to below the CBL by the full GLD, a non-compliance charge shall apply. For this purpose, Actual Load Drop (ALD) is defined as the difference between the customer's CBL and their actual hourly load. If in any hour of a curtailment event the ALD is less than the GLD, the Non-Compliance Demand shall be equal to the difference between the GLD and the ALD. Otherwise, the Non-Compliance Demand shall be zero (0).

(2) FIRM SERVICE LEVEL (FSL) METHOD

(a) Firm Service Level Peak Load Contribution (PLC) – The customer's PLC will be calculated each year as the average of its load during PJM's five (5) highest daily peak loads during the twelve (12) month period ended on the most recent October 31, adjusted to add-back any load curtailments requested by the Company during those five (5) hours. The customer's PLC shall be adjusted for any material change in the customer's operations, including a change in the hours of operation, that have occurred since the previous twelve (12) month period ended on the most recent October 31, and have increased or decreased the customer's load available for curtailment.

(b) Available Curtailable Demand (ACD) - The customer must designate an ACD, defined as the difference between the PLC and the Firm Service Level (FSL). The FSL is the demand to which the customer agrees to reduce load to or below for each hour during a curtailment event.

(c) If the customer fails to fully comply with a request for curtailment under the provisions of this Schedule, then the Non-Compliance Charge shall apply. If a customer is operating at or below their designated FSL during an event, it will be understood that they have no PSEDR capacity available with which to comply and will not be charged a non-compliance penalty. If in any hour of a curtailment event the metered demand is above the FSL, the Non-Compliance Demand shall be equal to the difference between the customer's metered demand and the FSL. Otherwise the Non-Compliance Demand shall be zero (0).

CURTAILED ENERGY

The Curtailed Energy shall be determined for each curtailment event hour, defined as the difference between the customer's CBL for that hour and the customer's metered load for that hour.

CURTAILMENT CREDITS

The **Curtailment Energy Credit** shall be 90% of the AEP East Load Zone hourly Real-Time Locational Marginal Price (LMP) established by PJM (including congestion and marginal losses) for each curtailment event hour.

The **Curtailment Demand Credit** shall be calculated in $/kW-month as the greater of (a) the four-year average PJM Reliability Pricing Model (RPM) Limited DR Base Residual Auction Clearing price for the applicable locational delivery area, calculated using the preceding delivery year, the delivery year and the subsequent two (2) delivery years and (b) 70% of the applicable RPM Net Cost of New Entry (Net CONE) for the current delivery year.

TARIFF PSEDR
(Peak Shaving and Emergency Demand Response Rider)

The Curtailment Demand Credit for the June 1, 2011 through May 31, 2012 contract period is as follows:

Delivery Year	RPM Clearing Price ($/MW-day) (a)	2011/2012 Net CONE ($/MW-day)	70% of Net CONE ($/MW-day) (b)	Greater of (a) and (b) ($/MW-day)	Curtailment Demand Credit * ($/kW-month)
June 1, 2010 to May 31, 2011	$174.29				
June 1, 2011 to May 31, 2012	$110.00				
June 1, 2012 to May 31, 2013	$16.46				
June 1, 2013 to May 31, 2014	$27.73				
Four-Year Average	$82.12				
Amount		$171.40	$119.98	$119.98	$3.649

* Curtailment Demand Credit in $/kW-month calculated as $/MW-day times 365 divided by 12,000.

MONTHLY DEMAND CREDIT

The Monthly Demand Credit shall be applicable to each month the customer is served under this Schedule, regardless of whether or not there are any curtailment events during the month.

1. GUARANTEED LOAD DROP METHOD - The Monthly Demand Credit shall be equal to the product of the GLD and the Curtailment Demand Credit.

2. FIRM SERVICE LEVEL METHOD – The Monthly Demand Credit shall be equal to the product of the ACD and the Curtailment Demand Credit.

MONTHLY EVENT CREDIT

An Event Credit shall be calculated for each event hour equal to the product of the Curtailed Energy for that hour and the Curtailment Energy Credit for that hour. The Monthly Event Credit shall be the sum of the hourly Event Credits for all events occurring in the calendar month, but shall not exceed the portion of the customer’s monthly bill that is computed on a per kWH basis under the applicable firm service Tariff for the same billing month. The customer shall not receive Event Credit for any curtailment events to the extent that the customer's PSEDR capacity is already reduced due to a planned or unplanned outage as a result of vacation, renovation, repair, refurbishment, force majeure, strike, economic conditions, or any situation other than the customer's normal operating conditions. Event Credits will not be withheld if the customer’s PSEDR capacity is already reduced as a result of customer actions taken in anticipation of a curtailment.

ANNUAL NON-COMPLIANCE CHARGE

Charges for non-compliance will be based on the customer's Non-Compliance Demand which reflects any failure by the customer to fully comply with requests for curtailment under the provisions of this Tariff during the delivery year. The Annual Non-Compliance Charge will be computed at the completion of the March delivery month and will be invoiced to the customer in May. The Annual Non-Compliance Charge shall be equal to the average Non-Compliance Demand during all curtailment event hours times 110% of the Curtailment Demand Credit times 12. Customers that are non-compliant will be subject to termination from participation in this program.

CUSTOMER CREDIT

The net amount of the Monthly Demand Credit, Monthly Event Credit and Annual Non-Compliance Charge will be provided to the customer within 60 days after the end of the delivery month. A customer may request the aggregation of individual customer account credits into a single credit. The Company reserves the right to apply amounts owed to the customer to any unpaid balance owed to the Company for electric service provided.

TERM

Contracts under this Tariff shall be made for an initial period of four (4) delivery years and shall remain in effect until either party provides three (3) years' written notice prior to March 1 of its intention to discontinue participation in the program for the fourth delivery year beginning after the notice is provided. Written notice deadlines through March 1, 2015 are as follows:

Written Notice Deadline	Effective Date of End of Participation
March 1, 2012	June 1, 2015
March 1, 2013	June 1, 2016
March 1, 2014	June 1, 2017
March 1, 2015	June 1, 2018

SPECIAL TERMS AND CONDITIONS

Customer specific information, including, but not limited to PSEDR contract capacity, shall remain confidential unless specified in writing by the customer.

If a new peak demand is set by the customer in the hour following a curtailment event due to the customer resuming the level of activity prior to the curtailment, the customer may request, in writing, that the customer's billing demand be adjusted to disregard that new peak. The Company will promptly evaluate all such requests and approve reasonable requests. In specific circumstances and subject to reasonable conditions, the Company may approve requests in advance.

DIRECT TESTIMONY OF
JAMES F. MARTIN
ON BEHALF OF
KINGSPORT POWER COMPANY
BEFORE THE
TENNESSEE REGULATORY AUTHORITY
CASE NO. _____

INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND PRESENT POSITION.

A. My name is James F. Martin. I am employed by American Electric Power Service Corporation ("AEPSC") as Manager-Regulated Pricing and Analysis. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. AEPSC is a wholly-owned subsidiary of American Electric Power Company ("AEP"), the parent Company of Kingsport Power Company (the "Company" or "KgPCo").

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. I direct a staff that is responsible for cost of service studies, rate design, customer agreements, and tariffs for several retail and regulated wholesale services throughout the eleven-state AEP service area. I am directly responsible for assisting in regulatory filings in the KgPCo jurisdiction.

Q PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. I graduated from The Ohio State University in 1990, receiving a Bachelor of Science Degree in Business Administration (Accounting Major), and again in 2001 receiving a Masters Degree in Business Administration. In 1990, I was employed by KPMG Peat Marwick as a Staff Accountant. Between 1993 and 2000 I held various accounting positions in private companies and CPA firms. In 2000, I joined AEPSC as a Senior Accountant in the Corporate Development department. In 2001, I was promoted to Manager of Financial Analysis. In 2003, I transferred to the Corporate Planning and Budgeting Department and became Manager of Strategic Analysis. In 2007, I was promoted to Director-Corporate Budgeting and Capital Investments. In August, 2010, I assumed my current position.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS?

A. Yes. I provided testimony before the Virginia State Corporation Commission ("VSCC") in Case No. PUE-2011-00001 in support of two Demand Response ("DR") programs of Appalachian Power Company ("APCo"), which are similar to those filed here and which were approved in September, 2011. In addition, I have provided testimony before the VSCC in support of an increase in APCo's base rates and in support of a rate adjustment clause to recover the cost of a new APCo generating station.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony in this proceeding supports the application for the Tennessee Regulatory Authority's ("Authority") approval of two new DR programs and their associated DR Tariffs, which are attached to the Company's application. The DR Tariffs are being filed as part of KgPCo's effort to manage its peak load, its overall load shape, its contribution to APCo's peak load, and its purchased power costs. KgPCo purchases all of its power from APCo, also a subsidiary of AEP, at rates approved by the Federal Energy Regulatory Commission ("FERC"). Any reduction in APCo's costs due to KgPCo's DR activities will ultimately benefit KgPCo and its customers. The Company proposes to enroll up to 60 MW of load between these two programs.

The DR Tariffs offer options for customers that have the ability to curtail their usage during periods of high demand. In particular, the Company is introducing a DR program that will focus on reducing KgPCo's and APCo's peak demands, which historically occur during cold winter mornings. The Peak Shaving Demand Response ("PSDR") Tariff is intended to help mitigate the impact of KgPCo's load requirements during APCo's winter peak demand hours. APCo is implementing recently approved DR programs for its Virginia customers, and these KgPCo programs, which are quite similar to the Virginia programs, could be implemented using those existing processes. KgPCo often peaks during the same hours that APCo peaks. The Company anticipates that curtailments under these KgPCo programs would be called during the same hours as the Virginia curtailments in most cases in order to maximize the potential reduction in APCo's load, and maximize the potential benefits to both companies. Successful implementation of the program would result in a reduced allocation of costs from APCo to KgPCo relative to what the allocation would be without it.

The other proposed program is the Peak Shaving and Emergency Demand Response ("PSEDR") Tariff. This program corresponds to an existing PJM DR program, which allows for curtailments during system emergencies, and thus can be counted as a capacity resource in meeting AEP's current Fixed Resource Requirement ("FRR") capacity obligation within PJM. Similar to the PSDR, this program also gives the Company the ability to manage its own load through curtailments during times of non-emergency operations.

I will describe the DR Tariffs, explain why they are in the public interest, and how they can be verifiable and reliable. I will also explain how the DR Tariffs are expected to produce cost savings for KgPCo's customers.

THE DR TARIFFS

Q. WHY IS KGPCO PROPOSING THE DR TARIFFS?

A. KgPCo is offering the DR Tariffs in order to provide both participating and non-participating customers benefits in the form of cost savings that will result from reduced demand. Participating customers will benefit by getting compensated for agreeing to reduce load during times of stress on the system. Non-participating customers will benefit to the extent the cost of power purchased from APCo can be reduced because of reduced peak demand.

Q. PLEASE DESCRIBE ELIGIBILITY REQUIREMENTS FOR PARTICIPATION IN THESE TWO PROGRAMS.

A. Each DR program is available on a voluntary basis to non-residential customers who are taking firm service, and who have the ability to curtail load under the provisions of either Tariff. Customers may enroll in either of the two programs but not both since each program contains similar provisions regarding peak-shaving curtailments during December through March.

Q. PLEASE DESCRIBE KGPCO'S PROPOSED PEAK SHAVING DEMAND RESPONSE TARIFF.

A. The PSDR Tariff is designed to attract demand-side resources which will allow the Company to reduce its peaks and / or high loads during the period from December through March. As shown in the following table, KgPCo's and APCo's highest annual peak loads typically occur on cold winter mornings, frequently occurring simultaneously. For the 2006-2010 period the annual peaks occurred in the hour ending at 8 am, as is shown in the following table:

HISTORIC PEAKS (MW) (*)						
	KgPCo			APCo		
YEAR	DAY	HOUR	PEAK DEMAND	DAY	HOUR	PEAK DEMAND
2006	12/8	8	390	12/8	8	7,127
2007	2/6	8	433	2/6	8	8,156
2008	1/25	8	461	1/25	8	7,848
2009	1/16	8	498	1/16	8	8,308
2010	12/14	8	443	12/14	8	7,623

* Values represent each company's load during APCo's peak hours. In 2007, 2008 , and 2009 APCo and KGPCo peaked during the same hours. In 2006 and 2010 KGPCo peaked on different dates than APCo, but those peaks also occurred during the hour ending at 8 am.

Under this Tariff the Company would be able to request curtailments ten (10) times for not more than six (6) hours each at any time of day on any day of the week. This flexibility will offer opportunities to reduce actual load. Because it does not contain provisions to allow curtailments for emergencies or curtailments during the summer months, DR resources which elect to participate in the PSDR program will not be registered in any of PJM's DR programs.

Reducing the Company's winter load will contribute to lowering APCo's generation capacity obligation under the AEP Interconnection Agreement ("the Pool"). The Pool uses the ratio of the highest non-coincident peak demands on a rolling twelve month basis, or what is known as a Member Load Ratio ("MLR") method, to allocate the capacity responsibilities of the AEP-East generation fleet among the AEP-East system companies. KgPCo's load is included in APCo's peak demand when calculating the MLR. Reducing APCo's winter peak through curtailments under the PSDR program can benefit KgPCo customers by reducing the allocation of capacity related charges from APCo compared to what would otherwise occur without the curtailments. Also, by reducing its peak demands, KgPCo will benefit from a reduced allocation of costs such as transmission costs through reduced energy and demand allocators.

KgPCo notes that on December 17, 2010, each member of the Pool gave notice to the other members and to the American Electric Power Service Corporation as agents for the Pool of its intention to terminate the Pool, effective as of January 1, 2014 or such other date specified by the FERC. Once the resolution of this issue and its effect on KgPCo is known, it may be necessary for the Company to modify its DR offerings consistent with such resolution to ensure these programs deliver benefits to the Company and to its customers.

Customers will be paid a monthly amount during the months of December through March for the load available for curtailment through the program. In addition, customers will be paid during curtailment events for reductions of energy. Contracts under this Schedule shall be made for a minimum initial period of one year and shall remain in effect until either party provides ninety days' written notice prior to December 1 of its intention to discontinue participation in the program.

Q. PLEASE DESCRIBE KGPCO'S PROPOSED PEAK SHAVING AND EMERGENCY DEMAND RESPONSE TARIFF.

A. The PSEDR Tariff would allow the Company to request customers to curtail for both peak-shaving reasons and for emergencies. As with the PSDR Tariff, the Company would be able to request non-emergency curtailments ten (10) times for not more than six (6) hours each at any time of day. However, with this program the Company can request curtailments at any time during the year, rather than just during December through March. Since KgPCo and APCo typically peak during the winter, curtailments for peak-shaving reasons during other times of the year would not be expected, but this Tariff would give the Company the ability to do so.

This Tariff will also allow for ten (10) additional curtailments of not more than six (6) hours duration for PJM-declared emergencies. Similar to PJM's Limited DR Program, the PSEDR Tariff does not permit curtailments for emergency purposes prior to noon on weekdays during May through September or prior to 2:00 pm on weekdays during October through April. Therefore curtailments for emergencies are unlikely to be effective in reducing KgPCo's winter peak, which historically has occurred earlier in the day. These emergency curtailment provisions are what will enable the Company to enroll the PSEDR load in PJM's DR program in order to receive the FRR credit.

Contracts under the PSEDR will be made for an initial term of four years and shall remain in effect until either party provides three years' written notice prior to March 1 of its intention to discontinue service for the fourth PJM delivery year beginning after the notice is provided. As with the PSDR Tariff, customers will be paid during curtailment events for reductions of energy, as well as a monthly amount for the amount of load available for curtailment through the program. The monthly payments for interruptible load will be higher under the PSEDR than under the PSDR because the customer is making a longer term commitment, is committing to the possibility of more curtailments, and because the Company and its customers will receive the added benefit of reducing the AEP System's PJM FRR capacity obligation.

Q. PLEASE DESCRIBE THE FEATURES COMMON AMONG THE TWO PROPOSED DR TARIFFS.

A. Both DR Tariffs are available on a voluntary basis to KgPCo's non-residential customers with an aggregate interruptible load greater than 250 kW.

Both programs use the same calculation of a customer's baseline load and give customers two options to determine the amount of demand that is subject to curtailment, either Guaranteed Load Drop ("GLD") or Firm Service Level ("FSL"). GLD customers commit to reduce a specific amount of load when requested, while FSL customers commit to reduce to a specific firm load level ("Curtailed Demand"). These two methods correspond to the methods used in PJM's DR programs. Both programs define Curtailed Energy as the difference between the customer's baseline load and metered load during a curtailment event.

There are two compensation elements to each Tariff. First, a Monthly Demand Credit equals the product of the Curtailment Demand Credit and Curtailed Demand, which remains in effect for the contract period. The Monthly Demand Credit shall be paid regardless of whether or not any curtailment events occur during the month. The Curtailment Demand Credit shall be calculated in $/kW-month for PSEDR and $/kW-year for PSDR as the greater of (a) the four-year average PJM Reliability Pricing Model ("RPM") capacity auction DR clearing price for the applicable locational delivery area, calculated using the preceding delivery year, the current delivery year and the subsequent two delivery years and (b) a percentage of the applicable PJM RPM Net Cost of New Entry ("Net CONE") for the delivery year. For the percentage of Net CONE, the Company proposes to pay 35% for the PSDR Tariff and 70% for the PSEDR Tariff. A four-year average of the RPM clearing price is used as an effort to levelize annual price fluctuations. The percentage of Net CONE component is intended to provide customers with price stability along with a reasonable price floor.

The second compensation element is a Monthly Event Credit, which is an energy payment that equals the product of the Curtailed Energy and Curtailment Energy Credit for each curtailment event hour. The Curtailment Energy Credit equals to 90% of the AEP East Load Zone hourly Real-Time Locational Marginal Price ("LMP") established by PJM (which includes congestion and marginal losses).

Customers are compensated for their commitment to curtail when requested and must return such payments, plus a ten percent penalty for load that they do not curtail when a curtailment request is issued.

Q. PLEASE DESCRIBE THE BENEFITS OF THE PROPOSED TARIFFS.

A. While KgPCo is not a member of the Pool, its load is included in APCo's peak demand when determining APCo's MLR. This increases APCo's MLR which causes a greater portion of the AEP-East generation fleet's capacity responsibilities to be allocated to APCo along with the associated costs. The PSDR Tariff can primarily benefit the Company and its participating and non-participating customers because the reduced demand will contribute to reducing APCo's peak demand and therefore its capacity obligations under the terms of the Pool agreement. These savings to APCo will ultimately be reflected in the cost-based charges from APCo to KgPCo through the Amended and Restated Interconnection Agreement (PPA). Specifically, the reduced demand and energy usage will result in a lower level of APCo expenses being allocated to KgPCo than otherwise would have been allocated because certain expenses are allocated based on demand and energy usage.

In addition to reducing generation costs, reduction in KgPCo's peak load could reduce transmission costs, which are billed to KGPCo based on its share of the AEP System's 12 coincident peaks (12 CP). This will occur in any month in which KGPCo curtails usage at the time of any month's AEP system coincident peak.

The PSEDR Tariff provides two primary benefits to the Company and its customers, including non-participating customers. First, it is designed to meet the minimum requirements for a PJM Demand Response Program, so that AEP can register the demand response capability contracted under the program with PJM to help meet its PJM capacity obligation. Second, as with the PSDR Tariff, it will give the Company the ability to curtail load at its sole discretion during peak load conditions on the KgPCo/APCo and/or AEP System, which can result in reduced purchased power costs.

The AEP Companies currently meet their PJM capacity resource obligation through the FRR Alternative, rather than purchasing it in PJM's RPM capacity market. Under the FRR Alternative, the AEP Companies are responsible for ensuring that adequate amounts of capacity and DR resources are available to ensure their capacity obligations are met, instead of purchasing capacity in the annual RPM capacity auction. It is possible that some or all of the AEP Companies will elect to fulfill their PJM capacity obligation in the RPM market rather than the FRR Alternative in the future. DR resources such as those enrolled in the PSEDR program have value to the Company and its customers under either the FRR Alternative or in the RPM market, because they can be used for either.

Q. HOW WILL THE BENEFITS OF THE DR TARIFFS BE REFLECTED IN RATES TO CUSTOMERS SERVED BY KgPCo?

A. KgPCo purchases all of its power from APCo pursuant to the FERC approved PPA. Both the rate for Generation service under the PPA and the Generation service portion of the rates charged to customers under the Purchased Power Adjustment Rider ("PPAR") during 2011 will remain fixed unless regulatory action is taken that changes the rates. Demand reductions achieved by KgPCo due to these programs would translate into a reduced allocation of APCo costs to Kingsport and ultimately result in reduced charges under the PPA. A FERC action will be required to change the PPA rates, and under the PPAR those FERC-approved rates flow through to KgPCo's customers.

Q. DO THESE TARIFFS ALLOW CUSTOMERS TO UTILIZE THE SERVICES OF A CURTAILMENT SERVICE PROVIDER (CSP) TO PARTICIPATE IN PJM PROGRAMS?

A. Yes. Under the Company's proposal, customers would not be prohibited from entering into contractual arrangements with CSPs so long as enrollment in the PJM program is through KgPCo. If customers are permitted to enroll in PJM programs through CSPs without going through KgPCo, KgPCo's remaining customers will not receive the PJM-related benefits described previously. The Company proposes that it should be the only party allowed to enroll its customers in PJM DR programs. The traditional third party CSPs can operate, but serve as consultants only, enrolling customers and submitting demand response data via KgPCo. If a customer participates in KgPCo's program through a CSP, the Company will send payments to the respective CSP who will then compensate the customer as the CSP and the customer have agreed. If a customer enrolls through KgPCo without using a CSP, the customer receives its compensation, as set forth in the KgPCo DR Tariffs, directly from KgPCo.

This arrangement with CSPs allows KgPCo and its customers to receive all of the benefits of load enrolled in PJM's DR program, and CSPs can serve as consultants to KgPCo's customers. KgPCo and its customers benefit by having more load enrolled through the efforts of the CSPs.

Q. PLEASE DESCRIBE THE COMPANY'S VIEW OF THE RELATIONSHIP AMONG KGPCo, THE CUSTOMER AND A CSP.

A. Customers may designate a third-party, such as a PJM-qualified CSP, to receive notifications and/or transactions on their behalf. Customers may also choose to participate in the programs as part of an aggregation of load wherein multiple customer accounts would participate in the same manner as a single customer. Any relationship with a CSP is entirely up to the customer; the customer must simply provide written notice to KgPCo of the authority that the customer has granted the CSP.

Q. PLEASE EXPLAIN WHY THE COMPANY HAS CHOSEN TO LIMIT THE NUMBER OF CURTAILMENTS AND THE AMOUNT CONTRACTED UNDER THE DR TARIFFS TO 60 MW.

A. Under both proposed Tariffs the Company can curtail load for peak-shaving reasons ten (10) times. The Company selected this number of curtailments because it believes that subjecting customers to more than ten (10) curtailments would inhibit participation in the programs, while still allowing for enough opportunities for the Company to request curtailments on the days most likely to be the Company's peak load days.

If the Company curtails load on the ten days with the highest peak loads during any year, then the Company's new peak load for that year becomes the peak on the day with the 11th highest load. Therefore any load reductions during the 10 curtailments below the peak on this 11th highest load day would not assist in reducing the Company's annual peak load. The Company studied its peak load data over the past 5 December through March periods and found that the average reduction in peak load from the highest peak to the 11th highest peak was approximately 60 MW. Thus the Company has proposed to limit the contracted load to 60 MW.

Q. ARE THESE DR PROGRAMS VERIFIABLE, RELIABLE AND EFFECTIVE MEANS OF REDUCING ELECTRICITY DEMAND?

A. Yes. These DR programs are designed to be similar in many important respects to PJM's current DR programs, which have been approved by FERC and have proven to be effective in increasing the availability of demand-side resources and bringing those resources into the PJM RPM capacity auctions. The testing requirements, demand reduction measurement methodologies, and charges for non-compliance used in both programs are the primary means of ensuring that participating DR resources are available to be curtailed when they are called to do so. These elements of the two programs are similar to PJM programs, and thus are expected to ensure that the amount of load participating in the programs will be available when curtailments are requested. The Company believes that because of their pricing structure along with other possible future benefits such as lower rates due to lower capacity obligations and lower allocated costs, both programs will be shown to be effective.

Q. HOW DOES THE COMPANY PROPOSE TO ACCOUNT FOR THE PAYMENTS TO CUSTOMERS AND COSTS ASSOCIATED WITH THESE PROGRAMS?

A. The Company is requesting the authority to defer the incremental costs of the programs into a regulatory asset account until such time as they can be included in rates charged to all customers. These costs will primarily consist of the curtailment payments made to customers, but could also include but are not limited to any required interval metering, one-time implementation costs, and carrying costs.

Q. HOW DOES THE COMPANY PLAN TO RECOVER THE COSTS OF THE PROGRAMS FROM CUSTOMERS?

A. The programs will create benefits that will lower costs for all of the Company's customers, not just participating customers, and therefore recovery from all customers is appropriate. The Company will make a filing in the future, once it has implemented the programs and accumulated some costs, to request approval for recovery of those costs through rates.

Q. HAVE SIMILAR PROGRAMS BEEN APPROVED IN OTHER JURISDICTIONS SERVED BY AEP?

A. Yes. APCo received approval on September 12th, 2011, from the VSCC (docket PUE-2011-00001), of two similar programs for customers in Virginia. APCo is implementing them now. The Indiana Utility Regulatory Commission also approved a similar PJM-qualified Emergency DR program (Rider DRS-1) for Indiana-Michigan Power Company during 2011 in Cause Number 43566 PJM 1.

Q. PLEASE SUMMARIZE WHY THE PROPOSED DR TARIFFS SHOULD BE APPROVED.

A. Implementation of these programs through the DR Tariffs will give the Company the ability to reduce its purchased power costs, assist in meeting its PJM FRR requirements, and will also allow customers who are interested in offering load for curtailment two tariff options to do so. The Company is requesting approval of these programs so that it can offer them to its customers immediately, which could allow curtailments and the associated benefits therefrom to begin as soon as possible.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

James F. Martin
JAMES F. MARTIN

STATE OF OHIO

COUNTY OF Franklin

SUBSCRIBED AND SWORN to before me, this 3rd day of February, 2012.

Cheryl L. Strawser
Notary Public

My Commission Expires:
October 1, 2016

NOTARIAL SEAL
STATE OF OHIO

Cheryl L. Strawser
Notary Public, State of Ohio
My Commission Expires 10-01-2016

ORIGINAL

EXHIBIT 4

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE COMMISSION'S INVESTIGATION INTO ANY AND ALL MATTERS RELATED TO COMMISSION APPROVAL OF PARTICIPATION BY INDIANA END-USE CUSTOMERS IN DEMAND RESPONSE PROGRAMS OFFERED BY THE MIDWEST ISO AND PJM INTERCONNECTION	**CAUSE NO. 43566 PJM 1** **PHASE I ORDER** **APPROVED:** APR 27 2011

BY THE COMMISSION:
David E. Ziegner, Commissioner
Jeffery A. Earl, Administrative Law Judge

On October 18, 2010, Respondent Indiana Michigan Power Company ("I&M") filed its Initial Tariff Compliance Filing and Request for Approval of Rider D.R.S. 1 (Demand Response Service – Emergency), initiating this subdocket, as required by the Commission's July 28, 2010 Order in Cause No. 43566 (the "Generic DR Order"). *Commission's Investigation Into Any and All Matters Related to Commission Approval of Participation by Indiana End-Use Customers in Demand Response Programs*, Cause No. 43566, 2010 Ind. PUC LEXIS 255 (IURC July 28, 2010). The filing included I&M's Demand Response Service – Emergency ("D.R.S. 1") Tariff. In subsequent phases of this Cause, I&M will also submit proposed tariffs for customer participation in PJM's economic demand response program and ancillary service demand response program.

On November 8, 2010, the Office of the Utility Consumer Counselor ("OUCC"), Energy Curtailment Specialists, Inc. ("ECS"), and Constellation New Energy, Inc. ("Constellation") each filed verified comments in response to I&M's Tariff Compliance Filing. I&M filed its Verified Reply Comments on November 19, 2010.

On November 22, 2010, I&M submitted a Proposed Order. The OUCC and ECS filed exceptions to I&M's Proposed Order on December 15, 2010, and I&M filed its Reply on December 22, 2010. At the conclusion of the parties' briefing, the Commission determined several issues regarding the D.R.S. 1 Tariff were in dispute and scheduled an Evidentiary Hearing to allow the parties to present evidence in support of their respective positions.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record of this Cause by reference and placed in the official files of the Commission, a public hearing was held on February 10, 2011 at 9:30 a.m. in Hearing Room 222, 101 W. Washington Street, Indianapolis, Indiana. I&M, the OUCC, ECS, and the Indiana Industrial Group participated in the hearing. No members of the general public appeared. At the hearing, the comments and testimony prepared by I&M, the OUCC, and ECS were admitted into evidence.

Based on the law and the evidence of record, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given as required by law. Petitioner is a "public utility" as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of this Commission in the manner and to the extent provided by Indiana law. The Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Background.** In the Generic DR Order, the Commission ordered that "Indiana end-use customers shall not be enrolled or otherwise participate in [Regional Transmission Organization ("RTO")] demand response programs directly or through curtailment service providers or other aggregators." Generic DR Order, 2010 Ind. PUC LEXIS 255, at *149. The Commission further ordered I&M (and the other Respondent Utilities) to file with the Commission for approval tariffs or riders authorizing the participation of their respective retail customers in Regional Transmission Organization ("RTO") demand response programs through their Respondent Utility. *Id.* These matters were further discussed with the Commission and its staff and the parties at a technical conference on September 7, 2010. Thereafter, I&M discussed the development of its compliance filing and its proposed schedule with parties interested in the PJM subdocket.

3. **Relief Requested.** I&M seeks approval of Rider D.R.S. 1 (Demand Response Service – Emergency), which provides for end-use customer participation through I&M in the PJM Emergency Demand Response Program. I&M will request approval of additional riders to provide for end-use customer participation in other PJM demand response programs in subsequent phases of this Cause.

4. **Evidence Presented.**

a. **I&M's Case-in-Chief.** In its compliance filing, I&M explained that the proposed Rider D.R.S. 1 qualifies under the current PJM Emergency Demand Response Program. I&M added that the proposed Rider D.R.S. 1 mirrors the provisions of the PJM Emergency Demand Response Program while reflecting the unique needs and requirements applicable to I&M as an Indiana utility. Rider D.R.S. 1 includes provisions regarding the term of contract, the customer's options under the rider, the determination of curtailed demand and energy curtailment that is eligible for compensation, curtailment credits for demand and energy, and the ramifications if a customer chooses not to curtail. Under Rider D.R.S. 1, I&M reserves the right to limit the aggregate amount of demand response capacity contracted for under Rider D.R.S. 1, Tariff C.S.-IRP, and Tariff C.S.-IRP2 to 235 MVA. The proposed Rider also reflects that I&M will take requests for service under Rider D.R.S. 1 in the order requests are received. In its compliance filing, I&M reminded the Commission that I&M meets its PJM capacity obligations through the fixed resource requirement ("FRR") alternative. Because Rider D.R.S. 1 meets the requirements of the PJM Emergency Demand Response Program, I&M may count enrolled demand response service ("DRS") capacity towards its FRR capacity obligations. Therefore, I&M's other non-participating customers will not be adversely affected by approving Rider D.R.S. 1.

b. **OUCC's Case-in-Chief.** The OUCC asserted that the broadest possible participation in demand response is in the best interests of all customers, both for economic and environmental reasons. Noting the Generic DR Order's interest in providing demand response opportunities for small and medium sized customers through the use of Curtailment Service Providers ("CSPs"), the OUCC criticized I&M's failure to commit to more than exploring strategies and partnership opportunities with CSPs. The OUCC specifically objected to I&M reserving the right to partner with CSPs based upon I&M's determination of whether such partnering was appropriate. The OUCC suggested instead that a range of offerings by different CSP providers – subject to compliance with tariff requirements – would be preferable to single source offerings selected by I&M. The OUCC concluded that a more concrete commitment to CSP participation was desirable, and that the Commission should order I&M to work with the OUCC, interested CSPs, and any interested customers in providing additional accommodation to CSP participation.

c. **ECS's Case-in Chief.** ECS objected to I&M's failure to explicitly allow participation by CSP providers in the tariff. ECS argues that third-party aggregator services provide multiple benefits to end-use customers including: assisting customers with DR activations; assisting customers with program enrollment; installing additional energy monitoring equipment; and shielding customers from non-performance penalties. ECS believes that small to mid-sized customer classes will forgo enrollment in DRS programs without the ability to participate through CSPs.

ECS also took issue with two aspects of the proposed D.R.S. 1 Tariff. First, ECS pointed out the tariff requires participants to give a three year notice before leaving the program. ECS argues that many aggregators, itself included, offer end-users the option to participate in PJM programs on a year-to-year basis. ECS proposes the tariff allow an individual customer, who is participating through a CSP, to withdraw upon less than a three-year notice, providing the CSP enrolls sufficient additional capacity to replace the withdrawn customer. ECS also took issue with I&M's proposal to limit the total DRS capacity to 235 MVA. ECS argues the capacity limit needlessly restricts the ability of end-use customers to utilize the DR market and particularly limits participation through third-party CSPs.

d. **I&M's Rebuttal Evidence.** In rebuttal, I&M argued the tariff does not foreclose the participation of end-use customers through CSPs. I&M states the tariff simply requires that such participation must go through the CSP to I&M rather than directly to PJM. Nonetheless, I&M revised the language of the tariff to clarify that end-use customers are not prohibited from working with CSPs so long as the customer's DRS capacity is not enrolled directly with PJM.

With respect to the capacity limit, I&M indicated that only 107,817 kVA of the 235 MVA capacity limit is currently registered in I&M's Indiana territory. Therefore, I&M argues, a significant capacity remains. I&M also stated the limitation is subject to future review and revision. I&M also argued the three-year notice of withdrawal was reasonable in light of its integrated resource planning process ("IRP"). I&M stated it treats a customer's pledged interruptible service as a reduction in load requirements. Therefore, the removal of such a pledge required I&M to adjust its IRP accordingly. I&M indicated the three-year period gives it sufficient time to adjust its IRP.

I&M also discussed the pricing of its tariff in its rebuttal evidence. I&M argued the pricing is within the range of previous offerings approved by the Commission for I&M customers over the past fifteen years and higher than the RPM market. In response to a Docket Entry request from the Commission, I&M submitted additional data detailing its past interruptible service discounts.

5. Commission Discussion and Findings. In the Generic DR Order, we required the filing of tariffs or riders authorizing the participation of I&M's retail customers in PJM demand response programs through I&M. We also recognized that each utility is different with unique load characteristics, cost structures and tariffs. We believe that allowing differences in the tariffs also permits experimentation with the methodologies that can lead to adoption of best practices when the tariffs are revisited in 2 years. We find that I&M's proposed Rider D.R.S. 1 as revised in Respondent's reply brief complies with the language set forth in the Commission's Generic DR Order and reasonably sets forth the terms and conditions applicable to a retail end-use customer.

We further find that the proposed Rider, as revised, reasonably addresses the concerns raised in the Comments filed by the other parties. I&M's proposed Rider D.R.S. 1 does not foreclose I&M's Indiana retail customers from entering into their own arrangements with a CSP of their own choosing for any services other than actual enrollment in a RTO demand response program. However, we strongly encourage I&M to continue, with the participation of the OUCC, exploring opportunities with CSPs that may further enhance participation in demand response by customers of all sizes, classes and sophistication as contemplated by the Generic DR Order. Accordingly, we find that the proposed Rider D.R.S. 1 as presented in I&M's Reply is supported by the evidence of record, consistent with our findings in Cause No. 43566, and should be approved.

Finally, in order to provide the Commission additional data concerning the distinctions among the demand response tariffs offered by the various Indiana regulated utilities, on or before October 31, 2012, I&M shall file a report with the Commission, under this Cause, describing its experience with the tariff and outlining the costs and expenses associated with the tariff and the administrative charges collected. I&M shall also provide discussion on the following issues, in addition to any other issues the utility finds appropriate:

1) how often the emergency demand response offers were called upon;
2) how the load reductions were measured or documented, and issues with customers meeting their commitments and whether this improved as customers gained experience;
3) the number of aggregators, the number of customers being served by the aggregators, the types of customers being served by aggregators, and how this compares to those customers participating directly with the utility.

Within 30 days of filing its report, the OUCC and intervenors may file comments on the report and addressing other issues with the tariff.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. I&M's Proposed Rider D.R.S. 1 attached as Exhibit A to I&M's Reply shall be and hereby is approved.

2. I&M shall file Rider D.R.S. 1 as approved herein with the Electricity Division of the Commission prior to placing it into effect.

3. As discussed above, I&M shall file its report under this Cause with the Commission on or before October 31, 2012.

4. This Order shall be effective on and after the date of its approval.

ATTERHOLT, LANDIS, MAYS, AND ZIEGNER CONCUR; BENNET NOT PARTICIPATING

APPROVED: APR 27 2011

I hereby certify that the above is a true and correct copy of the Order as approved.

Shala M. Coe

Shala M. Coe
Acting Secretary to the Commission