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August 16, 2013

**HAND DELIVERED**

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

R. Benjamin Crittenden  
(502) 209-1216  
(502) 223-4388 FAX  
rcrittenden@stites.com

Re: Case No. 2012-00224

Dear Mr. Derouen:

Please find enclosed and accept for filing the original and ten copies of Kentucky Power Company's responses to the data requests issued during the hearing conducted in this matter.

Copies of the responses are being served on counsel for Grayson along with a copy of this letter.

Very truly yours,

STITES & HARBISON PLLC

  
R. Benjamin Crittenden

cc: W. Jeffrey Scott

RECEIVED  
AUG 16 2013  
PUBLIC SERVICE  
COMMISSION

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE**  
**PUBLIC SERVICE COMMISSION OF KENTUCKY**

RECEIVED

AUG 16 2013

PUBLIC SERVICE  
COMMISSION

**IN THE MATTER OF**

**PETITION AND COMPLAINT OF KENTUCKY POWER )  
COMPANY FOR A DECLARATION OF ITS )  
RIGHT PURSUANT TO KRS 278.018(1) TO SERVE )  
THOSE PORTIONS OF THE SAND GAP ESTATES ) CASE NO. 2012-00224  
GREENUP COUNTY, KENTUCKY LYING WITHIN )  
ITS CERTIFIED TERRITORY IN LIEU OF )  
GRAYSON RURAL ELECTRIC COOPERATIVE )  
CORPORATION )**

**KENTUCKY POWER COMPANY RESPONSES TO COMMISSION STAFF'S  
AUGUST 6, 2013 POST HEARING DATA REQUESTS**

**August 16, 2013**

VERIFICATION

The undersigned Delinda K. Borden, being duly sworn, deposes and says she is the Manager, Customer and Distribution Services for the Ashland District for Kentucky Power Company, that she has personal knowledge of the matters set forth in the forgoing data requests and the information contained therein is true and correct to the best of her information, knowledge, and belief.



Delinda K. Borden

COMMONWEALTH OF KENTUCKY )

COUNTY OF BOYD )

) CASE NO. 2012-00224

Subscribed and sworn to before me, a Notary Public in and before said County and State, by, Delinda K. Borden, this the 12 day of August 2013.



Notary Public

My Commission Expires: MARCH 21, 2015

VERIFICATION

The undersigned, Richard Howerton, being duly sworn, deposes and says he is the Owner and Senior Engineer, for Howerton Engineering 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.

*Richard Howerton*

Richard Howerton

COMMONWEALTH OF KENTUCY )

)

) Case No. 2012-00224

COUNTY OF BOYD )

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Richard Howerton, this the 13 day of August 2013.

*Gloria Howerton*

Notary Public *State at Large, Greenup Co. Ky.*  
ID # *485441*

My Commission Expires: *April 6, 2017*



**Kentucky Power Company**

**REQUEST**

- (a) Did Kentucky Power Company provide maps of its certified territory to the Kentucky Department of Revenue or any local public school districts for purposes of the Kentucky Utility Gross Receipts License Tax?
- (b) If the answer to the above is yes, please submit copies of the maps.

**RESPONSE**

- (a) No.
- (b) N/A.

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**WITNESS:** Delinda K Borden



**Kentucky Power Company**

**REQUEST**

Please submit a copy of Kentucky Power Company's policy, referenced in the testimony of Delinda K. Borden, that provides for the purchase or sale price of facilities to be determined based upon reproduction cost less depreciation.

**RESPONSE**

A copy of Kentucky Power Company's policy, as referenced in Delinda K. Borden's testimony that provides for the purchase or sale price of facilities, is labeled Attachment 1.

**WITNESS:** Delinda K Borden

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## Accounting Policy/Procedure

<b>Policy/Procedure Title</b>	Accounting for Sales of Material and Equipment	<b>Date</b>	12/30/11
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### **Purpose**

This accounting policy / procedure memo serves to update and replace AEP Accounting Bulletins 21, "Accounting for Sales of Material and Equipment Between Associated Companies" and 21A, "Sales of Facilities to Outside Parties." The purpose of this Accounting Bulletin is to clarify System policy regarding sales of material and equipment (hereinafter referred to as "property") and to establish System uniformity regarding the accounting classifications pertaining to such sales and the cost determination between associated companies.

*This policy / procedure document may not be released to parties outside AEP without the approval of the Chief Accounting Officer.*

### **Policy/Procedure Statement**

#### I. REGULATORY AND OTHER LEGAL REQUIREMENTS

##### A. Federal Energy Regulatory Commission (FERC) Requirements

Section 203 of the Federal Power Act states that no public utility shall, without first having secured an order of the Commission authorizing it to do so, sell, lease or otherwise dispose of the whole of its facilities subject to the jurisdiction of FERC or any part thereof with a value in excess of \$10 million.

##### B. Public Service Commission of West Virginia

Section 24-1-12 of the West Virginia Code prohibits the sale, lease or transfer of any of its plant or equipment without prior Commission approval. Since 1956, Appalachian Power Company (APCo) has had an exemption for sales under \$50,000. By order of the Public Service Commission of West Virginia (PSC of WV) dated October 23, 2008, APCo was granted a \$1 million threshold for which it need not obtain prior approval for sales to **affiliated regulated utilities** at book value (not including real estate). APCo's sale of real estate in excess of \$50,000 requires pre-approval of the West Virginia PSC. An annual report of APCo's sales subject to the exemption is required. Wheeling Power Company (WPCo) does not have any exemption so all sales of property by WPCo must receive PSC of WV approval.

##### C. Virginia State Corporation Commission

By order of the Virginia State Corporation Commission dated February 20, 1981, APCo is authorized to sell materials, equipment and supplies to affiliates without specific authorization. APCo is required to report such transactions on an annual basis.

**Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.**



## Accounting Policy/Procedure

### D. Michigan Public Service Commission (MPSC)

Michigan rules require I&M to obtain the prior approval of the MPSC before I&M sells assets with an original book cost greater than \$50 million.

### E. Notification of Transactions

The Net Book Value/Sale Request Form should be initiated by the engineer directing the transfer of any in-service property between companies (except M&S material, meters and line transformers) and forwarded to Property Accounting so the transaction can be recorded appropriately in the plant accounting records.

Additionally, Form LEG-9 must also be completed and submitted to Property Accounting for all sales of property by Wheeling Power and for sales by all other operating companies if the value of the property to be transferred exceeds \$50,000 (applies to plant in service and CWIP for Appalachian Power and Wheeling and only plant in service for all other operating companies). Form LEG-9 is not required for transfers of line transformers and meters because the per unit cost is below the threshold.

Property Accounting will approve the form, and if the transaction meets the reporting requirements listed below, will forward it to Legal – Regulatory who will coordinate any required regulatory filings. The requirements for those Commissions which have specific rules on property transfers are described in more detail above. A complete and properly approved copy of the form will be filed in Property Accounting.

AEP Legal-Regulatory is to be informed for the purpose of determining whether any regulatory approvals must be sought if any proposed sale exceeds the following amounts:

- All utility companies, other than Appalachian Power Company and Wheeling Power Company - \$10 million (applies to plant in service)
- Appalachian Power Company - \$50,000 for real estate sales and sales to outside parties or non-regulated affiliates, \$1 million for non-real estate sales from APCo to affiliated regulated utilities (applies to plant in service and CWIP)
- Wheeling Power Company - all sales of property (in service or CWIP).

## II. COST FACTORS CONSIDERED IN ESTABLISHING BILLING PRICE FOR SALES BETWEEN ASSOCIATED COMPANIES

### A. Material Cost

#### 1. Certain Distribution Equipment

Certain distribution equipment not individually identified in the plant records, but instead valued at a cumulative average price for all property with the same material and equipment number is to be valued at the average stock ledger price in effect at the time of sale (this relates to such items as poles, conductor and line hardware). In the case of line transformers and meters, applicable

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## Accounting Policy/Procedure

overheads, stores expense and depreciation, should be included in the billing price.

### 2. Minor Items of Property

Minor items of property classified to Account 154, Plant Materials and Operating Supplies, are to be valued at the average stock ledger price in effect at the time of sale. Additional stores expense charges should not be included in the selling price by the selling company for this property.

### 3. Major Project Construction Property & Equipment

All property (including "mass" property) associated with the construction of major generating stations or other major construction projects, as well as any construction equipment purchased for use in such construction activity, and charged directly to Account 107, Construction Work in Progress, at time of purchase is to be valued at original material cost, estimated if not known, or cost of most recent purchase for "mass" property items. Such cost includes invoice price of the property (less discounts), original inward transportation and haulage charges, and directly assigned taxes. Accumulated book depreciation on capitalized equipment should be deducted from this selling price. Any AFUDC recorded should remain associated with the construction project, not the construction equipment.

### 4. Miscellaneous Retirement Unit Property

For all other retirement unit property, material cost shall be based on original cost less accumulated depreciation, estimated if not known. Such cost includes the invoice price of the property (less any discounts), any applicable construction overheads, AFUDC, or stores expense originally charged to the purchase, and when directly charged to such property, the original inward transportation and haulage charges to the initial destination on the selling company's property, directly assigned taxes, and any assembly or testing costs incurred, where applicable.

Material cost on any of the above noted items does not include installation costs (other than costs incurred to assemble the sold property) or handling expenses associated with haulage from point of initial destination on selling company's property to any other location(s) on the selling company's property.

## B. Depreciation

### 1. Definitions

- a. Book Depreciation - cumulative depreciation actually recorded for an item of property computed from the month following the in-service date (reasonably estimated if not ascertainable) at the appropriate composite depreciation rate used to record book depreciation. Accumulated depreciation for property written off due to a plant retirement or other similar reason is to be determined as of the date the write-off was recorded.

**Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.**



## Accounting Policy/Procedure

b. Observed Depreciation - the portion of the original cost of an item of property consumed due to action of the elements (i.e., physical deterioration resulting from environmental conditions) and wear and tear due to use. Observed depreciation may be considered for items of property which are not depreciated for book purposes and for capitalized minor items of property which would otherwise be sold at original cost.

### 2. Basis for Determining Observed Depreciation

Whenever the current accumulated book depreciation (based on composite depreciation rates) is deemed to require upward adjustment for billing purposes due to excessive wear and tear, action of the elements or an economic life which is materially less than the average economic life of all items of property which comprise the composite group, consideration of book depreciation may be replaced with observed (actual physical) depreciation. A reduction in previously recorded accumulated depreciation is not permitted for purposes of determining an intercompany selling price for retirement unit property.

Observed depreciation may also be employed in regard to property which is not depreciated for book accounting purposes, such as equipment used in major construction projects. Observed depreciation may not be employed in the determination of the selling price of land.

Generally, the appropriate Service Corporation engineering division shall, after notifying Property Accounting, determine the amount of observed depreciation by means of a non-affiliated expert determination. However, the observed depreciation for non-depreciated property with a diminutive value need not be based on the determination of a non-affiliated expert. Such property may be valued at a percentage of original cost based on its condition as follows:

#### Physical Condition Valuation Percentage

Excellent	100%
Good	75%
Fair	50%
Poor	25%

If the application of the above appropriate percentage results in a selling price of more than \$10,000 for any item, the value of such an item shall not be considered diminutive. The price of such an item must instead be based on original cost less observed depreciation determined by a non-affiliated expert.

### C. Stores, Handling and Packing Expenses, and Transportation Charges

#### 1. "Equipment" in Major Generating Unit Construction Departments

Construction equipment (bulldozers, cranes, trucks, etc.) and construction office furniture and equipment (desks, calculators, cabinets, etc.) are often transferred (sold) from one project to another a number of times before their ultimate disposition.

Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.



## Accounting Policy/Procedure

Transportation charges borne by the purchaser and assigned as part of the material cost of such equipment would, after several such sales, accumulate excessive costs, particularly to the ultimate user. Therefore, in all such transactions, transportation charges are to be borne, as an expense, by the seller.

### 2. All Other Property (Including Construction Department "Material")

The purchasing company is to assume all handling, packing and transportation charges incurred in moving the property from the seller's premises to that of the purchaser. Provision should be made so that title will pass at the point of shipment. It is proper for the purchasing company to include a stores expense charge on all material purchased via intercompany sales where applicable (i.e., type of stores expense code used is dependent on involvement of operating company's stores personnel).

Application of the stores expense rate should be made in accordance with procedures outlined in that manual.

### D. Repairs, Refurbishing and Reconditioning Expenses

#### 1. "Acceptable Condition" - Definition

Property sold to an associated company must be in "acceptable condition" unless otherwise indicated. In the absence of specific disclosure to the contrary, the following representations will be presumed to be implicitly made by the selling company:

- a. For New or Unused Property - represented to be in both excellent operating and excellent physical condition.
- b. For Used Property - represented to be capable of functioning efficiently and properly relative to intended use. Relates only to operating condition.

#### 2. Assignment of Expenses

It is the responsibility of each operating company to maintain their property in "acceptable condition" at all times.

If the selling company has been negligent in maintaining property in such condition, then any necessary repair costs will be paid by the selling company at the time of sale.

However, if the purchasing company desires to have certain repairs and refurbishing work done which is above normal operating requirements, then such costs will be paid by the purchasing company.

From time to time there will be certain circumstances in which the owning company does not maintain property under the "acceptable condition" criteria described above (i.e., as in the case of prior plant retirements). In these circumstances the selling company should disclose that the property is not in "acceptable condition" and the purchasing company shall pay the repair costs if they determine that they want the property as disclosed.

**Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.**



## Accounting Policy/Procedure

If property arrives at its destination in other than the prescribed condition, the purchasing company may place such property into "acceptable condition" (only after notification to the selling company regarding the nature and extent of the necessary repairs, etc.), and subsequently bill the selling company for the costs so incurred. However, if damage does occur in shipment, the purchasing company shall file appropriate claims for damage and/or losses against the carrier(s). Where differences of opinion arise between associated companies (as to "acceptable condition", amount of repairs, etc.), appropriate personnel of the Service Corporation Engineering or Purchasing Departments are to be notified of all pertinent facts in order that an equitable determination may be reached.

### E. Spare Parts Sold to Zimmer Plant

The SEC has approved special pricing procedures for sales of spare parts to Zimmer Plant. These procedures are incorporated into the Service Agreement between the owners of Zimmer Plant and the Service Corporation as agent for the other System Companies.

Spare parts sold to Zimmer Plant are to be priced at their current replacement cost. Replacement cost is to be based on the price charged by a recognized vendor of the part plus additional reasonable cost anticipated to be incurred to replace the part, such as taxes and transportation. If more than one vendor sells the part, the lowest quote received from two vendors is to be employed for the price computation.

If Zimmer Plant receives a spare part from an AEP affiliated company (owning company) to replace a damaged part, and in exchange transfers the damaged part to the owning company and pays for the cost to repair the part, the owning company should record the refurbished part received at the NBV of the spare part exchanged.

### F. Major Spare Parts Used by Buckeye Power

Article Four, Major Spare Parts, of Amendment No.10 to the Cardinal Station Agreement extends to Buckeye Power the right to use certain major spare parts held by Ohio Power Company or an Ohio Power Associate. If Buckeye Power has need for a major spare part to replace an equivalent item which has been damaged, the owner of such spare part shall make the part available for Buckeye Power's use.

If Buckeye Power uses a major spare part to replace an equivalent item which has been damaged, Buckeye Power has an obligation to repair the damaged item or to acquire a new spare part to replace the damaged item. Buckeye Power will transfer the repaired item, or new spare part, as the case may be, to the original owner of the major spare part at its original location.

The AEPSC Legal Department has concluded that Buckeye Power is not an associated company of any AEP System company under the SEC's Holding Company Act. Therefore, the return by Buckeye Power of an exact equivalent

**Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.**



## Accounting Policy/Procedure

major spare part to the original owner in lieu of the actual spare part used is acceptable.

### III. SALES TO OUTSIDE PARTIES

#### A. Billing Price

1. Sales to outside parties should generally not be recorded for less than original cost less book depreciation (NBV). A sale at less than NBV requires a valid business reason which has been reviewed and approved by management.

2. Sales of personal property to outside parties are often subject to state and/or local sales taxes. Such taxes shall be included in the selling price as a separate item and collected from the buyer, unless the buyer qualifies for exemption from the particular tax and presents evidence of such exemption.

#### B. Income Tax Treatment

Any questions as to the appropriate Federal income tax treatment to be applied to gains or losses incurred as a result of sales of facilities to outside parties should be directed to the Tax Department.

### IV. PROCEDURAL REQUIREMENTS

#### A. Ownership Verification

An item may be held under lease or be on loan from an associated company. Therefore, prior to negotiating the sale of an item such ownership should be verified with the appropriate plant accounting personnel.

#### B. Sales Price Determination Date

The sales price shall be calculated as of the month the sale is recorded. The retirement date for any capital equipment sold should be the same as the date used to calculate its selling price (i.e., no accumulated book depreciation may be excluded from the billing computation).

### V. ACCOUNTING CLASSIFICATIONS

Once an item is sold, the selling and purchasing companies should reflect the sale in their accounting records as follows.

#### A. Selling Company

##### 1. Operating Units or Systems

All charges and credits for sold electric plant which constitutes an operating unit or system should initially be recorded in Account 102, Electric Plant Purchased or Sold. Proposed journal entries to clear Account 102 should be provided to Accounting Policy & Research for review prior to filing with the FERC (see Electric Plant Instruction No. 5 of the FERC Uniform System of Accounts) or, if required, the appropriate state commissions. Any questions regarding what property would be considered an operating unit or system should be addressed

**Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.**



## Accounting Policy/Procedure

to Accounting Policy & Research.

### 2. Non-Operating Unit or System Retirement Unit Property

All charges and credits for property retired, including all those identified herein as Cost Factors (Section II) assignable to the selling company are to be recorded in an appropriate retirement work order.

No loss is to be recorded for depreciable property sold at less than net book value (i.e., sold at original cost less observed depreciation). The difference between the selling price and original cost is to be recorded as a debit to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, unless such accounting would distort the reserve account for that particular class of asset, in which case Property Accounting should be contacted to determine the proper accounting treatment.

### 3. Property in Account 154, Plant Materials and Operating Supplies

#### a. Material Cost

Is to be credited to Account 154.

#### b. Depreciation

i. Observed depreciation relating to property salvaged in connection with maintenance work or never issued from stock is to be charged to the maintenance account to which the property would have been charged when used, or to Account 163, Stores Expense Undistributed, if the former classification does not apply.

Note - If it is believed that a charge to Account 163 would cause undue distortion of the stores loading rate, the matter should be referred to Expense Allocations for consideration.

#### c. Repairs Refurbishing and Reconditioning Expenses

i. For property salvaged in connection with maintenance work applicable costs are to be charged to the same maintenance account credited when the property was salvaged.

ii. For property never issued from stock, applicable costs are to be charged to Account 163, Stores Expense Undistributed.

iii. For property previously retired from service, refurbishing and reconditioning expenses are charged to M&S Inventory.

Note - If such work done by fixed classification stores personnel is relatively minor, it may be impractical to classify their time to accounts other than Account 163.

### 4. Major Generating Unit Construction Property

The net proceeds for property transferred (sold) shall be credited to the applicable construction work order, as reductions in the total cost of the unit.

Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.





## Accounting Policy/Procedure

### B. Purchasing Company

#### 1. Material Cost (Net of Depreciation) Plus Transportation Charge, Stores Expense (If Applicable) and Other Handling Expenses

##### a. Operating Units or Systems

The cost of electric plant acquired as an operating unit or system should initially be recorded in Account 102, Electric Plant Purchased or Sold. Proposed journal entries to clear Account 102 should be provided to Accounting Policy & Research for review prior to filing with the FERC (see Electric Plant Instruction No. 5 of the FERC Uniform System of Accounts) or, if required, with the appropriate state commissions. Any questions regarding what property would be considered an operating unit or system should be addressed to Accounting Policy & Research.

##### b. Non-Operating Unit or System Retirement Unit Purchases

The net cost of the retirement unit property plus any related transportation or handling expenses should be recorded to the appropriate construction work order.

For a *parent or subsidiary company* (does not include sales between affiliated operating companies) the original cost to the selling company of retirement unit property acquired which does not constitute an operating unit or system, plus any related transportation or handling expenses, shall be charged to the appropriate construction work order. The difference between the original cost and the purchase price shall be credited to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

##### c. Other Property Purchased

Charge the appropriate construction work order, maintenance account, or Account 154, Plant Materials and Operating Supplies, as applicable, with the purchase price, plus transportation charges, stores expense (if applicable) and other handling expenses.

Where it is not practical to identify and directly assign transportation charges to particular property purchased, they shall be charged to Account 163, Stores Expense Undistributed.

#### 2. Repairs, Refurbishing and Reconditioning Expenses

Unless previously notified to the contrary, any costs incurred to place the property purchased into "acceptable condition" are to be billed to the selling company, except for costs due to damages in shipment for which claim is to be filed against the carrier(s).

In those cases where notification was provided that the property was sold "as is," or where the purchasing company desired additional repairs and refurbishing above the normal maintenance requirements, such costs incurred

**Questions Regarding the Application of this Policy/Procedure Document Shall be Directed to Property Accounting and/or Accounting Policy & Research.**



## Accounting Policy/Procedure

by the purchasing company are to be charged to the appropriate construction work order or in Account 154, Plant Materials and Operating Supplies, or other appropriate accounts, as applicable.

### References and Links

#### FERC USofA

[FERC: Uniform System of Accounts - Webpage](#)

[Link to the FERC: Uniform System of Accounts - Electric](#)



**Kentucky Power Company**

**REQUEST**

Please submit a copy of Exhibit RLH-1 submitted by Kentucky Power Company with the direct testimony of Richard L. Howerton.

**RESPONSE**

Please see the map attached to this response labeled Exhibit RLH-1.

**WITNESS:** Richard L. Howerton

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**Kentucky Power Company**

**REQUEST**

Refer to Exhibit DKB-2, which was submitted by Kentucky Power Company in its response to the Commission Staff's Supplemental Data Request Item No. 5. Please submit copies of the Right of Way Maps 3883-65 (January 12, 1946) and 3883-89 (September 16, 1946) that provide the location of the orange service line shown on the map.

**RESPONSE**

Please see copies of the 1946 Right of Way maps attached to this response labeled 3883-65 and 3883-89.

**WITNESS:** Delinda K Borden

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**CASE NO: 2012-00224**

**CONTAINS  
LARGE OR OVERSIZED  
MAP(S)**

**RECEIVED ON: August 16, 2013**