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JAN 23 2013

PUBLIC SERVICE
COMMISSION

January 23, 2013

HAND DELIVERED

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

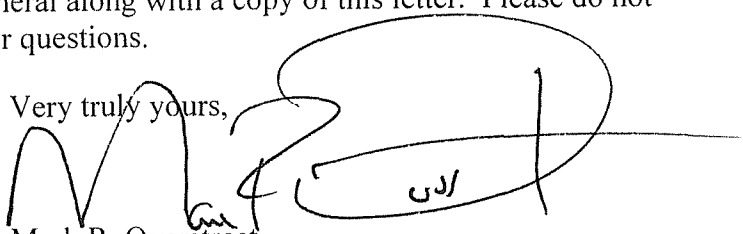
RE: Case No. 2012-00504

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and six copies of Kentucky Power Company's responses to Staff's Informal Conference Data Requests in the above proceeding.

Copies of the data request responses are being served on counsel for Kentucky Industrial Utility Customers, Inc. and the Attorney General along with a copy of this letter. Please do not hesitate to contact me if you have any further questions.

Very truly yours,


Mark R. Overstreet

MRO

cc: Jennifer B. Hans
Michael L. Kurtz

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JAN 23 2013

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION ON THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO. 2012-00504
POWER COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING DECEMBER 31, 2011)
AND JUNE 30, 2012

KENTUCKY POWER COMPANY RESPONSES
TO COMMISSION STAFF'S JANUARY 16, 2013
INFORMAL CONFERENCE DATA REQUESTS

January 23, 2013

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 3 of the Commission Staff's First Set of Data Requests. Please verify that the worksheet used to calculate the Section 199 deduction was adjusted to reflect the change from 0.22% to 0.26% in Uncollectible Accounts Expense.

RESPONSE

The worksheet used in connection with (but not submitted with) the Company's response to Item No. 3 of Commission Staff's First Set of Data Requests reflected the change from 0.22% to 0.26% in the Company's Uncollectible Accounts Expense. A copy of the worksheet is page 2 of 2 of the attachment to this response. Please see line 2 of that worksheet.

Because of an error, the resulting value for the Section 1999 deduction, 8.4711, was not reflected on ES Form 3.15. Please see the revised Form ES 3.15 attached as page 1 of 2 of the attachment.

WITNESS: Lila P Munsey

ES FORM 3 15

KENTUCKY POWER COMPANY - ENVIRONMENTAL SURCHARGE REPORT
 CURRENT PERIOD REVENUE REQUIREMENT
 BIG SANDY PLANT COST OF CAPITAL

For the Expense month of XXXXXXXX XX, 2013

LINE NO.	Component	Balances	Cap. Structure	Cost Rates		WACC (Net of Tax)	GRCF	WACC (PRE-TAX)	
		As of 4/30/2012							
1	L/T DEBT	\$550,000,000	48.592%	6.48%		3.15%		3.15%	
2	S/T DEBT	\$0	0.000%	0.00%		0.00%		0.00%	
	ACCTS REC								
3	FINANCING	\$51,682,642	4.566%	1.13%		0.05%		0.05%	
4	C EQUITY	\$530,200,734	46.842%	10.50%	1/	4.92%	1.5491 2/	7.619%	
5	TOTAL	\$1,131,883,376	100.000%			8.12%		10.82%	
1/	WACC = Weighted Average Cost of Capital Rate of Return on Common Equity per Case No. 2012 - 00504 dated - XXXXX XX, 2013								
2/	Gross Revenue Conversion Factor (GRCF) Calculation: Case No. 2012 - 00504 dated - XXXXX XX, 2013								
1	OPERATING REVENUE						100.0000		
2	UNCOLLECTIBLE ACCOUNTS EXPENSE (0.26%)						0.2600		
3	Kentucky Public Service Commission Assessment (0.15%)						0.1500		
4	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						99.5900		
5	STATE INCOME TAX EXPENSE, NET OF 199 DEDUCTION (SEE BELOW)						5.4671		
6	FEDERAL TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						94.1229		
7	199 DEDUCTION PHASE-IN						8.4711		
8	FEDERAL TAXABLE PRODUCTION INCOME						85.6518		
9	FEDERAL INCOME TAX EXPENSE AFTER 199 DEDUCTION (35%)						29.9781		
10	AFTER-TAX PRODUCTION INCOME						55.6737		
11	GROSS-UP FACTOR FOR PRODUCTION INCOME:								
12	AFTER-TAX PRODUCTION INCOME						55.6737		
13	199 DEDUCTION PHASE-IN						8.4711		
14	UNCOLLECTIBLE ACCOUNTS EXPENSE						0.2600		
15	Kentucky Public Service Commission Assessment (0.15%)						0.1500		
16	TOTAL GROSS-UP FACTOR FOR PRODUCTION INCOME (ROUNDED)						64.5548		
17	BLENDED FEDERAL AND STATE TAX RATE:								
18	FEDERAL (LINE 8)						29.9781		
19	STATE (LINE 4)						5.4671		
20	BLENDED TAX RATE						35.4452		
21	GROSS REVENUE CONVERSION FACTOR (100.0000 / Line 14)						1.5491		
	STATE INCOME TAX CALCULATION:								
1	PRE-TAX PRODUCTION INCOME						100.0000		
2	COLLECTIBLE ACCOUNTS EXPENSE (0.26%)						0.2600		
3	Kentucky Public Service Commission Assessment (0.15%)						0.1500		
4	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						99.5900		
5	LESS: STATE 199 DEDUCTION						8.4711		
6	STATE TAXABLE PRODUCTION INCOME BEFORE 199 DEDUCTION						91.1189		
7	STATE INCOME TAX RATE						6.0000		
8	STATE INCOME TAX EXPENSE (LINE 5 X LINE 6)						5.4671		

The WACC (PRE - TAX) value on Line 5 is to be recorded on ES FORM 3 10, Line 9.
 Weighted Average Cost of Capital Balances As of 4/30/2012 based on Case No. 2012-00504, dated XXXXX XX, 2013.

Kentucky Power Company

State Tax Expense - Kentucky		<u>2012</u>
1	Pre-tax production income	Input 100.0000
2	Uncollectible Accounts Expense (0.26%)	Input 0.2600
3	Kentucky Public Service Commission Assessment (0.15%)	Input <u>0.1500</u>
4	Income after Uncollectible accounts	Ln 1-2-3 99.5900
5	KY - State Income Tax Rate	Input <u>0.0600</u>
6	State income tax deduction	Ln 4 x 5 5.9754
7	Income after Uncollectible accounts and State income tax	Ln 4 - 6 93.6146
8	Section 199 Rate for Year 2012	Input <u>0.0900</u>
9	Section 199 deduction	Ln 7 x 8 8.4253
10	Income after Uncollectible accounts and Section 199 Deduction	Ln 4 - 9 91.1647
11	KY - State Income Tax Rate	Ln 5 <u>0.0600</u>
12	State income tax deduction	Ln 10 x 11 5.4699
13	Income after Uncollectible accounts and State income tax	Ln 4 - 12 94.1201
14	Section 199 Rate for Year 2012	Ln 8 <u>0.0900</u>
15	Section 199 deduction	Ln 13 x 14 8.4708
16	Income after Uncollectible accounts and Section 199 Deduction	Ln 4 - 15 91.1192
17	KY - State Income Tax Rate	Ln 5 <u>0.0600</u>
18	State income tax deduction	Ln 16 x 17 5.4672
19	Income after Uncollectible accounts and State income tax	Ln 4 - 18 94.1228
20	Section 199 Rate for Year 2012	Ln 8 <u>0.0900</u>
21	Section 199 deduction	Ln 19 x 20 8.4711
22	Income after Uncollectible accounts and Section 199 Deduction	Ln 4 - 21 91.1189
23	KY - State Income Tax Rate	Ln 5 <u>0.0600</u>
24	State income tax deduction/rate	Ln 22 x 23 5.4671
25	Income after Uncollectible accounts and State income tax	Ln 4 - 24 94.1229
26	Section 199 Rate for Year 2012	Ln 8 <u>0.0900</u>
27	Section 199 deduction	Ln 25 x 26 8.4711

Kentucky Power Company

REQUEST

Refer to the Company's response to Item No. 7 of the Commission Staff's First Set of Data Requests.

- a. Please provide a description of the Interim Allowance Agreement.
- b. Why are 2009 and prior allowances accounted for separately from the 2010 to 2014 allowances.
- c. Why were post 2009 allowances used in January 2012 before depleting the 2009 and earlier allowances?

RESPONSE

- a. The IAA (Interim Allowance Agreement) is an agreement between the five east operating companies for the inter-company settlement of SO₂ allowances. It provides for the settlement of allowances related to pool sales and purchases, distributes allowances related to the Gavin plant for capacity payments, and finally requires that each operating company will own its December MLR share of the total east SO₂ allowance Pool. These transactions occur through purchases and sales at prices specified in the Interim Allowance Agreement. Further detail can be provided upon request.
- b. In 2010, the Clean Air Interstate Rule (CAIR) took effect. This new ruling affected the consumption rate of SO₂ allowances. All SO₂ allowances with a vintage year of 2009 or prior are consumed on a one ton to one allowance ratio, whereas allowances for the vintage years 2010-2015 are consumed two allowances for every ton of SO₂ emitted. This created two separate allowance pools with different average unit costs.
- c. For tax purposes, AEP selects specific allowance blocks with the highest acquisition costs to maximize tax deductions. Accounting is required to follow this selection when recording book consumption expenses.

WITNESS: Lila P Munsey