STITES & HARBISON PLLC
ATTORNEYS

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APR 18 2013
PUBLIC SERVICE COMMISSION

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April 18, 2013

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HAND DELIVERED

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

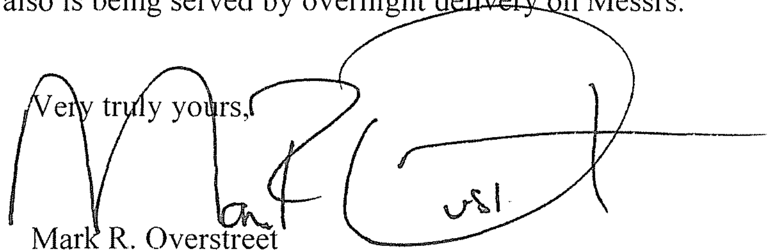
RE: Case No. 2012-00578

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and eight copies of Kentucky Power Company's April 18, 2013 responses to Staff's third set of data requests to the Company.

A copy of this letter and the Company's responses is being served by overnight delivery on the individuals indicated below and their associated counsel. Further, in accordance with Mr. Nguyen's request, a copy of the responses also is being served by overnight delivery on Messrs. Drabinski, Boismenu, and Buechel.

Very truly yours,



Mark R. Overstreet

MRO
cc: Michael L. Kurtz
Jennifer Black Hans
Shannon Fisk
Joe F. Childers
Robb Kapla
Lane Kollen
Tim Woolf

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

APR 18 2013

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

THE APPLICATION OF KENTUCKY POWER COMPANY FOR: (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; 5) FOR ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2012-00578

KENTUCKY POWER COMPANY RESPONSES TO

COMMISSION STAFF'S THIRD SET OF DATA REQUESTS

April 18. 2013

VERIFICATION

The undersigned, Jeffery D. LaFleur, being duly sworn, deposes and says he is Vice President Generating Assets APCO/KY, 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

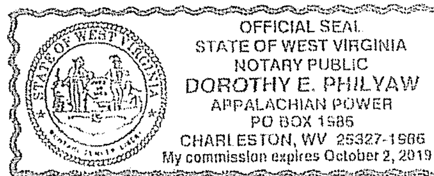
JEFFERY D. LAFLEUR

STATE OF WEST VIRGINIA)
) Case No. 2012-00578
COUNTY OF KANAWHA)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Jeffery D. LaFleur, this the 18th day of April 2013.

Notary Public

My Commission Expires: October 2, 2019



VERIFICATION

The undersigned, Scott C. Weaver, being duly sworn, deposes and says he is Managing Director Resource Planning and Operation Analysis for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge and belief

Scott C. Weaver

STATE OF OHIO)
) CASE NO. 2012-00578
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Scott C. Weaver, this the 12th day of April 2013.

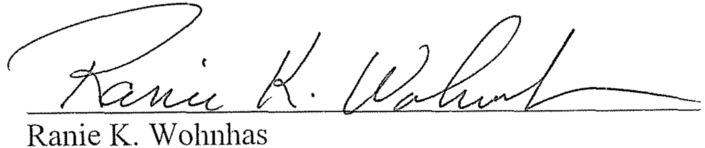
Cheryl L. Strawser
Notary Public, State of Ohio
My Commission Expires 10-01-2016

Notary Public

My Commission Expires: October 1, 2016

VERIFICATION

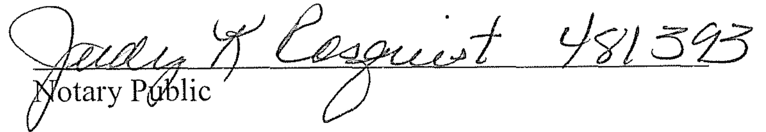
The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director Regulatory and Finance for Kentucky Power, that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein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



Ranie K. Wohnhas

COMMONWEALTH OF KENTUCKY	)	
	)	CASE NO. 2012-00578
COUNTY OF FRANKLIN	)	

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Ranie K. Wohnhas, this the 17th day of April 2013.



Notary Public

My Commission Expires: January 23, 2017

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 3, which discusses the reasons for the decrease in Kentucky Power's deficit capacity position. Describe what impacts the merger between Columbus Southern Power and Ohio Power Company has had on Kentucky Power's 2012 deficit capacity position.

RESPONSE

The Columbus Southern Power (CSP) and Ohio Power Company (OPCo) merger potentially had two small offsetting impacts on Kentucky Power's 2012 deficit capacity position and payment.

First, the CSP/OPCo combined peak was potentially less than what CSP's and OPCo's individual unmerged peaks would have been if their individual peaks had occurred in different hours. This would have resulted in a slightly higher MW deficit position for Kentucky Power.

Second, the merged CSP/OPCo capacity equalization rate was likely less than that of OPCo by itself and would have reduced the $/kW-month rate paid by Kentucky Power.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 4, which states," Kentucky Power agrees that the Mitchell Plant's Unit 1 fuel cost is approximately 11-12% less than the fuel cost for Big Sandy Unit 2 for the years 2011 and 2012." Also refer to Kentucky Power's response to Commission Staff's First Request for Information, Item 12, Attachment 1. Provide the following:

a. The line number which reflects the 11-12 percent reduction in fuel cost as stated above; also provide the dollar amount reflected in Attachment 1.

b. The reduction in fuel cost which would flow to Kentucky Power's retail customers through the fuel adjustment clause, and how it is reflected in Attachment 1.

RESPONSE

a. The analysis prepared in KPSC 1-12 Attachment 1 was based on an assumption that the Mitchell transfer and the AEP Pool termination had occurred 1/1/11, without re-dispatching any generating units. Only the incremental effects on individual revenues and expenses which would have been impacted under these assumptions were reflected in that analysis. Big Sandy's fuel and other O&M expense was not incorporated in the analysis, because it was assumed there would be no change in its level of generation during that year. This assumption is based on the premise that all generating units are dispatched by PJM only to serve region-wide load when they are economic to do so, when compared to all of the other resources available in PJM. Neither the elimination of the pool, nor the Mitchell transfer would have impacted the number of hours that Big Sandy would have been dispatched by PJM. Therefore the 11-12% difference is not reflected in the response to KPSC 1-12.

b. The analysis prepared in KPSC 1-12 Attachment 1 did not separately identify the estimates of what the impacts of the proposed actions on the fuel adjustment clause, system sales clause (SSC) or base rates would have been in 2011. All of the impacts on cost of service were combined in the estimate of the 7.98% increase.

The elimination of energy purchases made under the AEP Pool, reduction in market energy purchases, and changes in transmission losses are other items which run through fuel which would have impacted retail fuel costs. Consequently, the fuel cost difference ($/MWh) between Mitchell and Big Sandy will not necessarily result in an equivalent percentage difference in total dollars that run through the retail fuel clause.

For an estimate of the impacts on costs which separately identified the impacts on the fuel adjustment clause based on 2012, please refer to the Company's response to Attorney General question 2-12.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to the Kentucky Power's response to Staff's Second Request, Item 5, which states:

a. Sales committed under the current American Electric Power [("AEP")] Interconnection Agreement [("Pool Agreement")] that continue beyond the agreements scheduled termination will use the same allocator, Member Load Ratio [("MLR")], as was used at the time such sales were made.

b. The Company cannot confirm this statement. The calculation as presented in the request utilizes a 2012 peak aid and therefore is not reflective of the capacity required in 2014, nor does it account for any type of reserve margin capacity.

   With that said, Kentucky Power is currently expected to have surplus capacity during the 17-month transitional period beginning January 1, 2014, and customers will receive the majority of the energy benefits of any surplus capacity.

c. As of January 1, 2014, there will be no "deficit" and "surplus" companies under the AEP Interconnection Agreement since that agreement will have terminated. Capacity sales that continue after January 1, 2014 were entered into while the current pool was active; consequently, MLR is being used as the allocator for such sales.

d. The phrase "predominantly in PJM" is used solely to recognize that the Agent, on behalf of KPCo, will seek the best prices for KPCo surplus energy and as a consequence may sell certain blocks of energy from time to time outside of PJM (e.g., MISO)

a. Confirm that today under the Pool Agreement, the current month MLR is used as an allocator to allocate any current month's capacity sales.

b. Explain why Kentucky Power proposes to use the final MLR as the allocator to allocate any future month's capacity, even though the Pool Agreement terminates December 31, 2013.

c. State when the final MLR will no longer be used to allocate energy sales.

d. Confirm that today under the Pool Agreement, Kentucky Power and its customers receive its current month's MLR share of the energy benefits.

e. Explain why it is reasonable for Kentucky Power and its ratepayers to receive the majority of the energy benefits of any surplus capacity, but receive only their final MLR share of the capacity sales from the same surplus capacity.

f. Explain why, since the MLR and the Capacity Payments are both provisions of the Pool Agreement, it is appropriate to continue the MLR provision after the termination date for capacity sales and not continue the Capacity Payment provision.

g. State how many times, from 2010 to 2012, the Agent made sales outside of PJM, and provide the associated amount of MWH for those sales.

RESPONSE

a. Confirmed.

b. Off-system sales commitments made while the current Interconnection Agreement ("Pool Agreement") is in effect and that continue beyond December 31, 2013 ("legacy transactions"), will use an MLR allocator because that is used under the current Pool Agreement to allocate such transactions. The final MLR, as defined in Section 1.4 of the Bridge Agreement as filed at FERC, will be utilized to allocate these legacy transactions beginning January 1, 2014.

c. The MLR will no longer be used once all legacy trading transactions, which can include energy sales, have settled.

d. Today, Kentucky Power receives its monthly MLR share of off-system sales. Energy purchases and sales among the operating companies to fulfill their internal load requirements are not allocated on an MLR basis. Such energy sales are made from the companies with an energy surplus to those with an energy deficit in each hour.

e. Off-System sales commitments made under the current Pool Agreement that are legacy transactions will use an MLR allocator as describe in "b." above. Such allocation will end once these transactions are settled. Since there are no non-trading spot market energy commitments that have been made under the current Pool Agreement that will continue after the agreement terminates, there will be no such energy legacy transactions to allocate using MLR.

f. The final MLR will be used only for the allocation of the legacy portfolio of off-system sales of capacity and trading. These are transaction obligations that still must be met after the Pool Agreement has terminated, and since they were made during a period which used or uses MLR as the allocator, it is appropriate to maintain this allocation until such transactions can all be settled.

   The Pool Agreement termination will result in the end of transactions among or between the member companies, including the capacity payment provisions. Consequently, there are no capacity transactions among the members that must be addressed.

g. From 2010-2012 AEPSC, on behalf of the east operating companies, sold 20.9 million MWhs to points outside of PJM. The number of individual transactions are not available.

WITNESS : Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 10, Attachment 1.

a. Explain whether the Darby Plant capacity costs are used in calculating the AEP Pool Capacity costs paid by the AEP Pool deficit members.

b. State whether the Darby Plant energy costs (fuel, fuel-handling and variable O&M) are used in calculating the primary energy rate for AEP Pool purposes.

c. State whether the Waterford Plant capacity costs are used in calculating the AEP Pool Capacity costs paid by the AEP Pool deficit members.

d. State whether the Waterford Plant energy costs (fuel, fuel-handling, and variable operation & maintenance) are used in calculating the primary energy rate for AEP Pool purposes.

e. If the answer to any of Items a through d above is yes, explain any response of "No" in the Company's response to Staff's Second Set, Item No. 10, Attachment 1, Section B, column titled "Historically Provide Pool Cap & Energy.

RESPONSE

a. The Darby Plant costs have been used to calculate OPCo's capacity cost paid by the AEP Pool deficit members for the limited period since January 1, 2012, beginning with the merger of Columbus Southern Power (CSP) and Ohio Power Company (OPCo).

b. Darby Plant energy costs are used in calculating the primary energy rate for AEP Pool purposes. Such primary energy sales from CSP to KPCo were extremely limited prior to the CSP/OPCo merger due to CSP's energy deficit position.

c. The Waterford Plant costs have been used to calculate OPCo's capacity cost paid by the AEP Pool deficit members for the limited period since January 1, 2012, beginning with the merger of Columbus Southern Power and Ohio Power Company.

d. Waterford Plant energy costs are used in calculating the primary energy rate for AEP Pool purposes. Such primary energy sales from CSP to KPCo were extremely limited prior to the CSP/OPCo merger due to CSP's energy deficit position.

e. As described in the Company's responses to parts a. through d. above, the Darby and Waterford plants did not provide any Pool Capacity and only limited energy to KPCo prior to the CSP/OPCo merger, which occurred just last year. Therefore, the Darby and Waterford units were designated as not historically providing capacity or energy as these units were owned by CSP, a deficit member of the pool for many years.

By contrast, the next most recent addition to OPCo, a surplus member of the pool, shown in Attachment 1, Part A of the Company's response to KPSC 2-10, is the Gavin Unit 2, which achieved commercial operation in 1975, or 37 years earlier. It is this wide gap in time that results in a fair distinction of units that "Historically Provide Pool Capacity and Energy" to exclude Darby or Waterford.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's responses to Staff's Second Request, Item 21 and to Staffs Second Request, Item 2.c. Provide and explain the order in which the accounting entries associated with the Mitchell Transfer will occur, along with the accounting entries associated with the Interim Allowance Agreement provision at the end of each calendar year, and whether each of the AEP Pool members are obligated to have their MLR share of the AEP East allowance inventory.

RESPONSE

The steps describing the order of the accounting entries associated with the Mitchell Transfer are described in detail in the October 31, 2012 filings at the FERC made on behalf of KPCo. The FERC filings were provided for by reference in the Company's application in this docket and can be found at http://www.aep.com/investors/CurrentRegulatoryActivity/regulatory/ferc.aspx

In the Company's filed FERC 203 Ohio Corporation Separation Application, pages 17 - 18 provide the steps describing the order of the accounting entries to transfer the generation facilities from Ohio Power to AEP Generation Resources. Pages 8 -10 of the filed FERC 203 Amos and Mitchell Transfer Application provide the steps describing the order of the accounting entries of Amos and Mitchell transfer which will occur immediately after closing of the Corporate Separation Transaction.

Pages 7 - 8 of the Company's filed FERC 205 - Pool and IAA Termination, PCA & Bridge Application provides that Pool Members agree the IAA should terminate effective January 1, 2014. Therefore the final IAA entries in December 2013 will be included in the closing and part of the amounts transferred in the steps described above and in the FERC filings.

The relevant pages, as indicated above, are included as KPSC 3-5 Attachment 1.

Each of the AEP Pool members is obligated to have its MLR share of the AEP East allowance inventory, which will be determined prior to the transfer in the steps described above and in the FERC filings.

WITNESS: Ranie K Wohnhas

intend that PCRBs that have tender dates after the closing of the Transaction would transfer to AEP Generation Resources in the manner described above on or about their tender dates.[16] AEP Generation Resources would be made contractually responsible for costs of carrying the transferring PCRBs after closing of the Transaction.[17] This arrangement is consistent with the Ohio Commission's ruling (at pages 17-18) in the Ohio Commission Corporate Separation Order.

The proposed Transaction includes several steps, each of which will occur one after another at closing. Consistent with Ohio Power's Ohio Commission-approved corporate separation plan, the Facilities will transfer from Ohio Power to AEP Generation Resources. The following three steps will comprise the transfer from Ohio Power to AEP Generation Resources: First, Ohio Power will contribute its generating units, generation-related assets and the associated liabilities to its direct, wholly-owned subsidiary, AEP Generation Resources. Next, Ohio Power will distribute its shares of AEP Generation Resources to AEP, the parent company.[18] Finally, AEP will contribute all of the stock of AEP Generation Resources to a wholly-owned subsidiary holding company. This intermediate holding company will be a direct subsidiary of AEP and thus in a separate

[16] As described in a Section 203 application being filed contemporaneously herewith, PCRBs associated with Ohio Power's interests in Amos Unit No. 3 and the Mitchell generating station would be further transferred to APCo and KPCo.

[17] If AEP Generation Resources did not have a waiver from the requirements of FPA Section 204, AEP Generation Resources would seek approval under FPA Section 204 for the above-described securities issuances, as appropriate.

[18] The Applicants do not believe that this intermediate step triggers FPA Section 203(a)(2). Nonetheless, to the extent Section 203(a)(2) is triggered, Section 33.1(c)(2)(iii) provides a blanket authorization for a holding company to acquire any security of a subsidiary company within the holding company system. 18 C.F.R. § 33.1(c)(2)(iii).

chain of ownership from the wires company, Ohio Power, thereby structurally separating Ohio Power from AEP Generation Resources in AEP's corporate structure, as shown in the post-Transaction organizational chart in Exhibit C.[19]

The Applicants intend to close the Transaction on or about December 31, 2013. The Applicants request that the Commission approve the Application without a hearing within the statutorily-prescribed period of 180 days from the date of filing of the Application.

B. Jurisdictional Facilities to be Transferred

The jurisdictional facilities that will be transferred to AEP Generation Resources are: (1) the Facilities;[20] (2) the Cardinal station operating agreement between Ohio Power and Buckeye;[21] and (3) the Wheeling Contract, but only if the APCo/Wheeling merger does not close at the same time as the Transaction closes.[22] Following the closing of the

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[19] As described in a separate application under FPA Section 203 being filed contemporaneously herewith, immediately after closing of the Transaction, APCo will obtain the transferred interest in Unit No. 3 of the Amos generating plant and appurtenant interconnection facilities and related assets and liabilities (APCo already owns the remaining interest in Amos Unit No. 3) and a 50% undivided interest in the Mitchell generating plant and appurtenant interconnection facilities and related assets and liabilities (collectively, "Mitchell"), and KPCo will obtain the remaining 50% undivided interest in Mitchell. This Transaction is not, however, contingent upon the transfer of those interests to APCo and KPCo.

[20] The disposition by Ohio Power of its generation units and related jurisdictional assets requires prior approval of the Commission under Section 203(a)(1)(A), 16 U.S.C. § 824b(a)(1)(A). The transfer of the generating units to AEP Generation Resources (which will be a public utility at the time of the Transaction) requires prior approval of the Commission under Section 203(a)(1)(D), 16 U.S.C. § 824b(a)(1)(D).

[21] The Ohio Power Company First Revised Rate Schedule FPC No. 69 was accepted for filing by letter orders dated October 15, 2004, and November 30, 2004, in Docket No. ER04-1141. Under the Cardinal operating agreement, Ohio Power operates the Cardinal station, including Unit Nos. 2 and 3, which are owned by Buckeye.

[22] The Ohio Power Company First Revised Rate Schedule FERC No. 18 was accepted for filing by letter order issued on January 8, 2010 in Docket No. ER10-275. As noted above, Ohio Power provides wholesale requirements service to its affiliate, Wheeling, under the Wheeling Contract. In a separate Section 203 filing being made contemporaneously herewith, approval is being sought for a transaction under which Wheeling would merge with and into APCo, with APCo being the surviving company. The (continued)

II. THE TRANSACTION

A. Description of the Transaction

The principal purpose of the Transaction is to transfer generation from AEP Generation Resources to APCo and KPCo so that they can satisfy their capacity requirements in PJM and provide baseload generation to meet their customers' energy requirements at the time that the Pool Agreement is terminated. The generation assets to be transferred include Ohio Power's existing interests in the John E. Amos and Mitchell generating plants. The John E. Amos generating plant is a three-unit coal-fired power plant located in Winfield, West Virginia, with an average annual capacity rating of 2,900 MW. Ohio Power has an undivided two-thirds interest in Unit No. 3 of that station (867 MW); APCo currently holds the remaining undivided one-third interest in Unit No. 3 (433 MW), and it owns all of Unit Nos. 1 and 2 of the Amos station. The Mitchell generating station is a two-unit coal-fired power plant located in Moundsville, West Virginia, with an average annual capacity rating of 1,560 MW. Ohio Power currently owns the entire station.

The proposed Transaction will occur immediately after closing of the Corporate Separation Transaction, which provides for Ohio Power's interests in the John E. Amos and Mitchell stations (along with its interests in other generating stations) to be transferred at net book value to AEP Generation Resources. Immediately upon closing of the Corporate Separation Transaction, however, the interests in Unit No. 3 of the John E. Amos station and the Mitchell station will be transferred to APCo and KPCo at the same net book value price. Specifically, APCo (which already owns an interest in Amos Unit No. 3) will obtain Ohio Power's former ownership interest in Unit No. 3 of the Amos

generating station and appurtenant interconnection facilities ("Amos 3 Facilities"), and related assets and liabilities, and a 50% undivided interest in the Mitchell generating station and appurtenant interconnection facilities ("Mitchell Facilities"), and related assets and liabilities. KPCo will obtain the remaining 50% undivided interest in the Mitchell Facilities, and related assets and liabilities.[4]

Several steps are involved in effecting the Transaction. First, immediately upon consummation of the Corporate Separation Transaction, AEP Generation Resources will contribute its interest in the Amos 3 Facilities and a 50% undivided interest in the Mitchell Facilities to a wholly-owned subsidiary of AEP Generation Resources, NEWCO Appalachian. In parallel, AEP Generation Resources will contribute the remaining 50% undivided interest in the Mitchell Facilities to another wholly-owned subsidiary of AEP Generation Resources, NEWCO Kentucky. Next, AEP Generation Resources will distribute its shares of NEWCO Appalachian and NEWCO Kentucky to its direct parent (which will be an intermediate holding company between AEP Generation Resources' ultimate parent, AEP, and AEP Generation Resources). Then, the intermediate holding company will distribute its shares of NEWCO Appalachian and NEWCO Kentucky to its direct parent, AEP.[5] Finally, NEWCO Appalachian will merge with and into APCo, with

[4] The limited, generation-related transmission assets to be transferred to APCo and KPCo are the transmission facilities associated with the generating plants located at or forming part of the generating plants.

[5] The Applicants do not believe that these intermediate steps trigger FPA Section 203(a)(2). Nonetheless, to the extent Section 203(a)(2) is triggered, Section 33.1(c)(2)(iii) provides a blanket authorization for a holding company to acquire any security of a subsidiary company within the holding company system. 18 C.F.R. § 33.1(c)(2)(iii).

APCo being the surviving entity, and NEWCO Kentucky will merge with and into KPCo, with KPCo being the surviving entity.

The Applicants intend to close the Transaction on or about December 31, 2013. The Applicants request that the Commission approve the Application without a hearing within the statutorily-prescribed period of 180 days from the date of filing of the Application.

B. Jurisdictional Facilities to be Transferred

The jurisdictional facilities that will be transferred to APCo are the Amos 3 Facilities and an undivided 50% interest in the Mitchell Facilities. The jurisdictional facilities that will be transferred to KPCo are an undivided 50% interest in the Mitchell Facilities.[6]

C. Contracts Related to the Transaction

Exhibit I contains the forms of the Asset Contribution Agreement between AEP Generation Resources and NEWCO Appalachian and the Asset Contribution Agreement between AEP Generation Resources and NEWCO Kentucky, as well as the forms of the Agreement and Plan of Merger of APCo and NEWCO Appalachian and the Agreement and Plan of Merger of KPCo and NEWCO Kentucky.[7] The distribution of the shares of NEWCO Appalachian and NEWCO Kentucky from AEP Generation Resources to its

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[6] The disposition of the Amos 3 and Mitchell Facilities by AEP Generation Resources (which will be a public utility at the time of the Transaction) requires prior approval of the Commission under Section 203(a)(1)(A), 16 U.S.C. § 824b(a)(1)(A). The transfer of the generating units to APCo and KPCo requires prior approval of the Commission under Section 203(a)(1)(D), 16 U.S.C. § 824b(a)(1)(D).

[7] APCo and KPCo are also entering into an operating agreement with respect to the Mitchell generating station (which they will jointly own after the Transaction closes), under which APCo will operate the Mitchell generating station. That agreement is being contemporaneously filed with the Commission under FPA Section 205.

IV provides for a fair allocation of the cost of meeting pre-existing PJM Fixed Resource Requirement ("FRR")[10] obligations and settling existing marketing and trading positions that will survive termination of the Pool Agreement.

The Commission has had occasion to review issues concerning the proposed withdrawal of one or more members from an integrated holding company's pool arrangements in *Entergy Services, Inc.*, 129 FERC ¶ 61,143 (2009); *order denying reh'g*, 134 FERC ¶ 61,075 (2011); *aff'd, Council of the City of New Orleans, Louisiana v. FERC*, No. 11-1043 (D.C. Circuit, August 14, 2012) ("*Entergy*"). In that case, the Commission ruled that there are three specific questions concerning the proposed withdrawal: whether the members are permitted to leave the arrangement; whether they are required to compensate any remaining members; and whether they have any "continuing obligations" to the remaining members. 129 FERC ¶ 61,143 at P 58. As confirmed by review of Section 13.2, the Pool Agreement permits each Pool Member to terminate its agreement (the equivalent of withdrawing from the agreement), and neither requires a terminating Pool Member to compensate the other Pool Members nor imposes upon a terminating Pool Member any continuing obligation to the other Pool Members. Section 13.2 is straightforward: a terminating Pool Member must simply provide the other Pool Members with three years' prior written notice of its proposed termination.

In *Entergy*, the Commission further ruled that acceptance of the members' proposal to withdraw from the agreement does not turn on the justness and reasonableness of the potential successor arrangements; that determination is made when such arrangements are submitted for Commission review. 134 FERC ¶ 61,075 at P 24. As noted, APCo, I&M, and KPCo have agreed to a new set of arrangements, *i.e.*, the Power Coordination Agreement. That agreement is discussed below, and any issues surrounding the justness and reasonableness of that agreement may be resolved in this docket.

C. Termination of the IAA

The IAA originally was submitted for filing on September 30, 1994, in Docket No. ER94-1670, and was accepted for filing by Letter Order issued in that docket on December 30,

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(APCo already owns the remaining interest in Amos Unit No. 3) and a 50% undivided interest in the Mitchell generating plant, and KPCo will obtain the remaining 50% undivided interest in the Mitchell plant. An application seeking approval of the transfers to APCo and KPCo is being filed with the Commission contemporaneously herewith in accordance with FPA Section 203.

[10] The FRR provisions were added to the PJM Reliability Assurance Agreement ("RAA") in connection with PJM's Reliability Pricing Model ("RPM"). In conjunction with the development of the RPM rules, PJM developed the FRR alternative, under which a load-serving entity (designated as an "FRR Entity") has the option to submit an "FRR Capacity Plan" and meet a fixed capacity resource requirement rather than participate through the RPM capacity auction. In addition to meeting its own load obligations, an FRR Entity is required to reflect in its FRR Capacity Plan any retail load that switches to an alternative retail load-serving entity that opts not to submit its own FRR Capacity Plan. The FRR provisions of the RAA place the obligation to maintain sufficient capacity on the load-serving entity, which includes Ohio Power.

1994, and made a supplement to each member's Pool Agreement rate schedule designation, as shown below. On June 21, 1996, AEPSC, on behalf of the Pool Members, filed Modification 1 to the IAA in Docket No. ER96-2213. This modification was accepted for filing by Letter Order issued in that docket on August 30, 1996. The current version of the IAA has been in effect since September 1, 1996, and has been given the following rate schedule designations:[11]

Appalachian Power Company	Supplement No. 9 to Rate Schedule No. 20
Columbus Southern Power Company	Supplement No. 3 to Rate Schedule No. 30
Indiana Michigan Power Company	Supplement No. 10 to Rate Schedule No. 17
Kentucky Power Company	Supplement No. 6 to Rate Schedule No. 11
Ohio Power Company	Supplement No. 9 to Rate Schedule No. 23

The IAA was developed and entered into in connection with the Pool Members' efforts to comply with the 1990 amendments to the Clean Air Act, and in particular Title IV thereto.[12] As implemented by the United States Environmental Protection Agency, the 1990 Amendments provided for, among other things, a sulfur dioxide (SO_2) emission allowances regime that eventually would affect nearly all of the Pool Members' electric generating units, with one allowance being equal to the right to emit one ton of SO_2. Consistent with the coordinated system operations under the Pool Agreement, the IAA was intended to provide for coordinated and integrated compliance with the 1990 Amendments through an equitable methodology to allocate emission allowances to the Pool Members and to allocate either the cost of acquiring, or the proceeds associated with the sale of, allowances to or from non-affiliated third parties. For administrative ease, each member would own its member load ratio share of allowances at the end of each year. The internal transfer price for the allowances was established as the System Cost of Compliance ($115.43/ton in 1995, escalated annually at a fixed rate of 10.56%). For 2011, the System Cost of Compliance was $575.29; that figured escalated to $636.04 for 2012.

Since the IAA was put into place in 1994 and subsequently modified in 1996, there have been significant changes in environmental rules and the markets associated with Title IV SO_2 emissions allowances that make the IAA obsolete. These developments include most notably: (1) additional environmental compliance obligations added since 1994 whose stringency on power plant emissions has or will eclipse obligations under Title IV for SO_2, (2) the continuing uncertainty surrounding the environmental compliance regulations, (3) the extension of AEP's environmental controls program, which has resulted in the addition of scrubbers to thirteen AEP East generating units, (4) elimination, in part as a result of the foregoing two factors, of any shortage of the Pool Members for Title IV SO_2 allowances, and (5) the emergence of a robust secondary market for Title IV SO_2 allowances and their current and projected availability at low cost from that market. For all these reasons, the Pool Members agree that the IAA should terminate when the Pool Agreement terminates effective on January 1, 2014.

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[11] Because the IAA was designated as a Supplement to the rate schedule that was the Pool Agreement, terminating the Pool Agreement rate schedule would result in termination of the IAA, absent the IAA being removed from the relevant rate schedule.

[12] 104 Stat. 2584, 42 U.S.C.A. § 7561, *et seq.* ("1990 Amendments").

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 22, which states, "To capitalize KPCo to the pre-asset transfer capitalization, the intent is to borrow the $75 million."

a. During the time period 2009 through 2012, state whether there were any other AEP operating companies whose dividend to AEP grew 28.7 percent annually.

b. Provide Kentucky Power's forecasted dividend payment to AEP, including the $75 million dividend, for 2013.

RESPONSE

a. Yes. Three operating companies had dividends that grew 28.7% or greater annually: Ohio Power Company, Public Service Company of Oklahoma, and AEP Texas Central. There is variability with dividends because of factors such as weather, earnings, and construction cycles.

b. Kentucky Power's forecasted dividend in 2013 is $25 million which is associated with the normal course of business. The $75 million dividend associated with the generation acquisition and assumption transaction that is intended to recapitalize Kentucky Power to restore its equity-capital ratio to levels approximating the levels prior to the acquisition and assumption transaction will occur in 2014.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's responses to Staff's Second Request, Item 22 and to Commission Staff's First Request for Information, Item 59. The following table, prepared by Commission Staff, shows the net income, corresponding dividend, and the percentage of dividend to net income, from 2008 to 2012.

Year	Net Income ($000)	Dividend ($000)	Dividend Paid as a Percentage of Net Income
2008	$24,531	$14,000	57.07%
2009	$23,936	$19,500	81.47%
2010	$35,282	$21,000	59.52%
2011	$42,374	$28,000	66.08%
2012	$50,978	$32,000	62.77%
Total	$177,101	$114,500	64.65%

a. State whether any of the other operating companies within AEP paid a dividend of a similar percentage of net income as Kentucky Power paid from 2008 to 2012. If yes, provide the operating company and their associated percentages from 2008 to 2012.

b. State whether any of the other operating companies within AEP paid a similar average percentage of 64.65 percent of net income in dividend as Kentucky Power paid from 2008 to 2012. If yes, provide the operating company and their associated average percentage from 2008 to 2012.

RESPONSE

a. Yes. In general, the operating companies target a 60% payout ratio. Below are the operating companies and their associated percentages for 2008 - 2012.

2008 – Kentucky Power (57.49%), Kingsport Power (122.95%), AEP Texas North (103.20%), Wheeling Power (72.30%)

2009 – Kentucky Power (81.47%), AEP Texas North (174.36%), Wheeling Power (79.24%),

2010 – Kentucky Power (59.52%), Appalachian Power (64.39%), Indiana Michigan (83.27%), Ohio Power (86.61%), Public Service Co. of Oklahoma (70.10%), AEP Texas Central (61.26%), AEP Texas North (90.86%)

2011 – Kentucky Power (66.08%), Appalachian Power (83.04%), Ohio Power (139.79%), Wheeling Power (77.51%)

2012 – Kentucky Power (62.77%), Appalachian Power (66.02%), Indiana Michigan (63.31%), Kingsport Power (79.94%), Ohio Power (87.33%), Public Service Co. of Oklahoma (78.85%), AEP Texas North (65.17%)

b. Yes. During the period from 2008 through 2012, the following companies had an average payout ratio similar to or greater than Kentucky Power's 64.65%.

Kingsport Power (64.93%), Ohio Power (74.44%), AEP Texas North (87.05%)

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 24, which states, "The Company will provide a depreciation study for the Mitchell plant in its next base rate case and the depreciation rates will be by plant account." State whether the depreciation rates in the depreciation study will be by plant account for all of Kentucky Power's plant, property, and equipment, not just for the Mitchell Plant.

RESPONSE

Yes, the depreciation rates in the depreciation study prepared for the next Kentucky Power base rate case will be by plant account for all of Kentucky Power's plant, property and equipment and not just for the Mitchell Plant.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 26. Explain in detail whether any of Kentucky Power's Labor (including Overheads) and American Electric Power Service Corporation's ("AEPSC") Labor (including Overheads) is already reflected in base rates either by way of direct charges or through the AEPSC billings. The explanation should include any associated amounts already reflected in base rates.

RESPONSE

Kentucky Power's last base rate case (No. 2009-00459) was settled on a "black box" basis. As a result, the Company does not have any specific details concerning the amount of Kentucky Power and AEPSC labor included in base rates. Kentucky Power's position is that all of Kentucky Power's labor (including overheads) and AEPSC labor (including overheads) reflected in response to KPSC 2-26 is included in its base rates. However, any incremental costs, such as the Commission's consultant (Vantage Energy Consulting) in this proceding, would not be currently reflected in base rates and the Company would ask for recovery of those costs in its next base rate case.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 32, which states, "The BS 1 Gas Conversion is assumed to have a 15-year life and retire in 2030. Data beyond that date is unnecessary." State whether a 15-year life is normal for a plant being converted to gas.

RESPONSE

The Company based the assumption on the physical condition of BS Unit 1 and cannot speak to the physical condition of all gas converted units. However, based on the condition of Big Sandy Unit 1, the Company sees no physical mechanism that would cause the Company to retire the unit prior to 2030.

WITNESS: Jeffrey LaFleur

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Items 33 and 34. Confirm that Ohio Power Company was not the most deficit AEP Pool member just prior to the addition of the Waterford Generating Station or the Lawrenceburg Plant.

RESPONSE

Waterford and Lawrenceburg were both assigned to Columbus Southern Power Company (CSP) which was, and/or was forecasted to be, the most deficit operating company at the time of these assignments. This was based upon a calculation of the deficit capacity of each deficit pool member divided by each individual operating company's pool capacity reservation.

These assignments occurred prior to the merger of CSP with Ohio Power Company. Ohio Power Company was not deficit.

In contrast, the Company's response to Commission Staff's Second Request, Items 33 and 34 shows the operating companies' percentage deficit compared to the total primary capacity and primary capacity reservation.

WITNESS: Ranie K. Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to Staff's Second Request, Item 35. Confirm that Appalachian Power Company was the most deficit AEP Pool member just prior to the addition of the Dresden Plant.

RESPONSE

Confirmed.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to Kentucky Power's response to the Attorney General's ("AG") Supplement Request for Information ("Supplemental Request"), Item 14, Attachment 1. Explain why the KPCO Market Energy Sales Revenues for October 2014 is $85,000.

RESPONSE

KPCo Market Energy Sales Revenues for October 2014 are projected to be only $85,000 due to reduced generation from KPCo's units because of scheduled maintenance outages. As the planned maintenance schedule currently exists, during October 2014, several of KPCo's units are projected to be unavailable for a portion of or during the entire month due to scheduled maintenance outages.

WITNESS: Scott C. Weaver

Kentucky Power Company

REQUEST

a. State whether any other regulatory approvals are required for Kentucky Power to assume a 50 percent undivided interest in the Mitchell Plant, in addition to that of the Kentucky Public Service Commission and the Federal Energy Regulatory Commission. Describe any impact of other regulatory approvals on Kentucky Power.

b. Describe what will occur if other required regulatory approval is denied.

RESPONSE

a. No other regulatory approvals are required.

b. N/A

WITNESS: Ranie K Wohnhas