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APR 22 2013

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE 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 ) CASE NO. 2012-00578  
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 )

KENTUCKY POWER COMPANY SUPPLEMENTAL RESPONSE TO  
AG SUPPLEMENTAL DATA REQUESTS ITEM NO. 29

April 22, 2013

**VERIFICATION**

The undersigned, Karl A. McDermott, being duly sworn, deposes and says he is the Special Consultant with NERA 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

Karl A McDermott  
Karl A. McDermott

STATE OF ILLINOIS )  
  ) CASE NO. 2012-00578  
COUNTY OF CHAMPAIGN )

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Karl A. McDermott, this the 22<sup>nd</sup> day of April, 2013.

Pamela R Huffman  
Notary Public



My Commission Expires: \_\_\_\_\_

**Kentucky Power Company**

**REQUEST**

Reference the applicant's response to KIUC 1-69. Please provide a copy of the engagement letter noted in response to a. if it has been obtained. If a letter has yet to be signed, please explain why not. Moreover, if a letter has not been signed, please explain the terms of the agreement as understood between counsel and the witness.

**RESPONSE**

The Company is in the process of finalizing a professional services agreement with NERA for Dr. McDermott's services. While agreement has been reached on the hourly rates for Dr. McDermott's services, and two other NERA consultants, discussions are continuing on certain terms and conditions of the agreement. The engagement letter will be made available once it is executed.

**April 22, 2013 Supplemental Response**

Please see Attachment 1 of this supplemental response for a copy of the executed professional services agreement.

**WITNESS:** Karl A. McDermott

**PROFESSIONAL SERVICES AGREEMENT**

**PROFESSIONAL SERVICES AGREEMENT NO.**

**DATE** 17 April 2013

**ISSUED BY:** American Electric Power Service Corporation, as agent for  
Appalachian Power Company and Kentucky Power Company  
(Owner)

**TO CONSULTANT:** National Economic Research Associates, Inc. (Consultant)

**DESCRIPTION OF WORK:**

Consultant hereby agrees to provide advice and services to the Owner relating to proceedings to be filed in Kentucky, by Kentucky Power Company ("KPCo"), and in Virginia and West Virginia, by Appalachian Power Company ("APCo"), regarding the proposed transfer of generating assets to KPCo and APCo ("Transfer Cases"). Consultant will provide expert advice, analysis and opinions relevant to the Transfer Cases; present the opinions of Dr. Karl McDermott in the Transfer Cases via written testimony and appearance at the evidentiary hearings; and respond to data requests. Dr. McDermott's direct written testimony and exhibits in the Kentucky Transfer Case are to be finalized in time to be filed by December 18, 2012, unless otherwise agreed by the Parties. His direct testimony and exhibits in APCo's Virginia and West Virginia Transfer Cases are to be filed in February 2013. Rebuttal testimony may or may not be required of Dr. McDermott. The foregoing activities are referred to hereafter as "Work".

**TERM OF AGREEMENT:**

The term of the Agreement shall be for the period while the Transfer Cases are pending, or any appeals from the final orders in those cases are pending, unless terminated by either party prior thereto pursuant to the termination provisions of this Agreement.

**COMPENSATION:**

In consideration for the Work to be rendered to the Owner by the Consultant under this Agreement, the Owner shall pay Consultant Four Hundred Fifty Dollars (\$450.00) per hour for Dr. Karl McDermott, Three Hundred Eighty Dollars (\$380.00) per hour for Dr. Carl Peterson and Four Hundred Thirty Dollars (\$430.00) per hour for Wayne P. Olson, Senior Consultant. The total amount paid for the three (3) versions of the direct testimony of Dr. McDermott to be prepared under this Agreement (*i.e.* for Kentucky, West Virginia and Virginia), including expenses, shall not exceed Fifty Thousand Dollars (\$50,000.00), without the prior written consent of the Owner.

The parties agree that the Owner shall reimburse Consultant for all reasonable and necessary expenses incurred by Consultant during the course of performing Work covered by the Agreement, including travel expenses, but excluding routine office expenses such as telephone,

mail, facsimile, and normal duplicating which are considered overhead to be borne by Consultant. Air travel shall be coach or the equivalent.

Consultant shall be paid fees and permitted expenses within thirty business days following the Owner's receipt of an itemized invoice, together with such supporting data as the Owner may require, provided that Consultant shall under no circumstances be required to provide a receipt for any individual expense in an amount of \$50.00 or less. Payment shall be complete compensation for all Consultant's Work including, but not limited to, labor, materials, tools, equipment, supervision, profit and taxes. Consultant reserves the right to suspend provision of the Work in the event of non-payment by Owner.

Consultant and Owner agree that the total compensation to be paid to Consultant by Owner for the Work shall not exceed Seventy-Five Thousand Dollars (\$75,000.00), without the prior written consent of the Owner.

Consultant is independent from Owner and the individuals named above are independent professionals. The compensation to be paid to Consultant for the services to be performed hereunder is not dependent upon: 1) Consultant's testimony, findings or opinions; 2) the outcome of any legal action, mediation or arbitration; or 3) the amount or terms of any settlement of the underlying legal cause.

**MAIL INVOICES TO:**

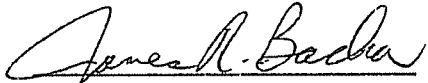
American Electric Power Service Corporation  
%James R. Bacha  
1 Riverside Plaza – 29<sup>th</sup> Floor  
Columbus, OH 43215


**PROFESSIONAL SERVICES AGREEMENT GENERAL TERMS AND CONDITIONS  
INCORPORATED HEREIN:**

Professional Services Agreement General Terms and Conditions are attached hereto and made a part of this Agreement and, by signing below, Consultant agrees to the terms and conditions.

**OWNER:** American Electric Power Service Corporation, as agent for Appalachian Power Company and Kentucky Power Company

**CONSULTANT:** National Economic Research Associates, Inc.

By: 

By: 

Printed Name: James R. Bacha

Printed Name: KARL A. MCDERMOTT

Title: Assistant General Counsel  
AEPSC

Title: Special Consultant

**PROFESSIONAL SERVICES AGREEMENT GENERAL TERMS AND CONDITIONS**

The following terms and conditions shall apply to the Professional Services Agreement ("Agreement").

- 1. Definitions.** "Work" shall include all of Consultant's obligations under the Agreement. "Owner" means one or more of the companies of the American Electric Power System identified in the Agreement. The affiliated companies of the American Electric Power System are severally and not jointly liable for obligations arising hereunder.
- 2. Priority.** The Agreement consists of the following documents, listed in their order of priority in the event of a conflict: any amendment to the Agreement; the Agreement Form; these Terms and Conditions; and any exhibit(s), schedule(s), or proposal(s) incorporated into the Agreement. Additional or different terms contained in Consultant's proposal or Consultant's acceptance shall not become a part of the Agreement unless expressly agreed to in writing and signed by Owner and Consultant.
- 3. Obligations of the Consultant.** Consultant shall devote Consultant's best efforts to the performance of the Work, using accepted standards of care and competence for Consultant's field of expertise. Consultant may take other similar work engagements, but Consultant shall not accept any employment or engage in any activity which would compete or conflict with Consultant's duties and obligations to the Owner under the Agreement. It is understood and agreed that it is Consultant's practice to serve multiple clients within industries, including those with potentially opposing interests. Accordingly, Consultant may have served, may currently be serving or may in the future serve other clients whose interests may be adverse to those of the Owner. In all such situations, Consultant is committed to maintaining the confidentiality of each client's information and will abide by non-disclosure procedures (such as firewall protocols and other safeguards) to ensure that all confidences are protected. Consultant shall obtain at Consultant's expense all licenses and registrations necessary to perform Consultant's Work under the Agreement. If necessitated by the Work being performed, Consultant shall abide by and sign the AEP Information Network Usage Compliance Agreement.
- 4. Obligations of the Owner.** The Owner agrees to provide Consultant access to all documents, materials, equipment and data reasonably necessary to the performance of Consultant's Work under the Agreement. In performing the Work, Consultant will use information supplied by the Owner and in using such information, Consultant shall have no liability for the accuracy or completeness of such information. If applicable, the Owner agrees to furnish space on the Owner's premises for use by Consultant while performing Work under the Agreement.
- 5. Relationship of the Parties.** The parties agree that Consultant is a professional and that Consultant's relationship to the Owner is that of an independent Consultant, and nothing herein shall be construed or interpreted as creating any other relationship. The Owner will not provide fringe benefits, paid vacation, or any other employee benefit for Consultant. Consultant retains responsibility and discretion for the manner, methods, techniques and procedures utilized in the performance of Work provided hereunder, provided that Consultant shall observe the working rules and security regulations of the Owner and shall not perform his/her duties in a manner that unreasonably interferes with the Owner's business and operations.
- 6. Confidentiality.** Consultant recognizes that during the term of the Agreement Consultant will have access to and become familiar with confidential, proprietary and/or trade secret information that is owned by the Owner and regularly used in its operation. Consultant understands and agrees that the Owner's confidential, proprietary and/or trade secret information derives independent economic value for the Owner, actual or potential, from not being generally known or

readily ascertainable by other persons and entities who can obtain economic value from them, and that the Owner takes reasonable efforts to maintain the secrecy of this information. Consultant agrees that during the term of the Agreement and at any time thereafter, except as required to provide Work hereunder, Consultant shall not directly or indirectly, possess, use, convert, copy, duplicate or misappropriate confidential, proprietary and/or trade secret information, and shall not directly or indirectly disclose, communicate, transmit, or transfer, any confidential, proprietary and/or trade secret information to any person, firm, partnership, corporation, proprietorship, governmental body or agency, or business organization or entity of any kind or description. The obligation of confidentiality shall survive five years beyond the termination or end of the Agreement.

Consultant understands that for purposes of the Agreement, confidential, proprietary and/or trade secret information is defined to include, but is not limited to: (a) the whole or any part of paper copies or computer data bases, programs or diskettes, containing scientific, technical or business information; (b) any type of data or documents that relate to the design, process, procedure, method, technique, formula, or improvement of any current or future products or services developed, manufactured, owned, produced, sold, distributed or provided by the Owner; (c) any type of data or documents that relate to marketing strategies or plans and any associated information such as customer names and/or contacts, addresses or telephone numbers, mailing lists, customer, vendor and supplier account data; (d) consulting reports; (e) site assessments; (f) business plans, financial information, billing information, sales figures, price lists, discounts, or financial information; (g) computer passwords or codes; and (h) information or data relating to the energy commodity market and related financial instruments, and/or statistical and analytical data, including analytical models, used to forecast changes in the pricing of energy commodities or the value of related financial instruments. It is understood and agreed that the obligations of confidentiality imposed upon Consultant hereunder shall not apply with respect to information (i) which is now in or hereafter enters the public domain without violation of this Agreement; (ii) which was known to Consultant prior to the time of disclosure by the Owner; (iii) received in good faith by Consultant from a third party that Consultant believed was legally entitled to disclose the same; and (iv) that is independently developed by Consultant without use of, or reference to, any confidential information of the Owner.

Consultant understands and agrees that upon the termination of the Agreement all such confidential, proprietary and/or trade secret information, in addition to any other property belonging to the Owner, which is in Consultant's possession and/or control, shall be delivered to the Owner in good order. Notwithstanding anything herein to the contrary, Consultant may, in accordance with legal, disaster recovery and records retention requirements, retain copies of confidential information that are stored in tape backups and may retain copies of work product developed in connection with the Work, provided that all such retained confidential information and work product shall remain subject to the confidentiality obligations contained herein, and Consultant will not access any confidential information retained in tape backups except pursuant to legal and/or disaster recovery requirements.

Additionally, except as required by law or regulation or as requested or by legal or regulatory process or regulatory authority having jurisdiction over Owner, Owner shall not either during the term of this Agreement or at any time after the termination thereof, use or disclose to any person, firm or company any confidential or proprietary information of the Consultant, which shall include, without limitation, information with respect to the Consultant's pricing or Consultant IC (as defined hereafter) without the consent of Consultant.

**PROFESSIONAL SERVICES AGREEMENT GENERAL TERMS AND CONDITIONS** Supplemental Response to Item No. 29  
April 22, 2013

and shall submit to Owner an invoice with supporting information setting forth the price for the Work performed prior to the notice of termination, plus Consultant's actual, direct, unavoidable costs resulting from the termination, less salvage value, but in no event shall the invoice exceed the Agreement price.

Upon termination for convenience or cause, Owner shall not be liable to Consultant for Consultant's lost profits on the terminated portion of the Agreement. The Owner shall be entitled to terminate the Agreement without notice for cause under the following circumstances: (a) Consultant's refusal or failure to perform Consultant's responsibilities in accordance with the terms of the Agreement; (b) Consultant's engagement in activities or conduct injurious to the best interest or reputation of the Owner; (c) Consultant's violation of any of the material terms and conditions of the Agreement; or (d) Consultant's unauthorized disclosure, dissemination, or misappropriation of confidential, proprietary, and/or trade secret information. Upon termination for cause, Owner may pursue all rights and remedies available under the law. The Agreement shall automatically terminate upon the death of Consultant or upon Consultant's physical or mental inability to perform Work to the Owner.

16. **Affiliated Companies.** Any indemnification of Owner and any limitation of Owner's liability shall to the same extent apply to Owner's directors, officers, employees, agents and affiliated companies, and the directors, officers, employees and agents thereof.
17. **Taxes.** Consultant shall be responsible for the reporting and payment of all federal, state and local income taxes that may be assessed on payments made by the Owner to Consultant. If applicable, the Consultant shall be responsible for self-employment taxes on the payments made to the Consultant. If Owner specifies that services or tangible personal property to be furnished by Consultant qualify for exemption from sales or use taxes or that Owner has a direct pay permit, Consultant shall, at the direction of Owner, not include sales or use taxes in its price. Owner shall provide Consultant with Owner's direct pay permit or exemption certificate where applicable. Consultant agrees to cooperate in obtaining exemption certificates necessary to claim such exemptions.
18. **Payment.** Consultant shall invoice Owner, with proper documentation, for all Work performed during the prior month. Owner shall pay Consultant, upon submission of proper invoices, the price for Work performed within thirty days after receipt of the invoice. Owner may withhold all or part of payment if Owner disputes Consultant's compliance with the terms of the Agreement. The Agreement number must appear on all invoices and notices.
19. **Warranty.** Consultant warrants that the Work shall be free of defects and in conformance with the Agreement and applicable industry standards. For a period of twelve months from completion of the Work, Consultant shall, at its expense, promptly correct any non-conforming Work. Completion of the Work shall not relieve Consultant of its warranty obligations. In the event of an emergency, or if Consultant fails to correct a defect within a reasonable period of time, Owner may repair or replace any defect in warranted Work at Consultant's expense.
20. **Records.** Owner reserves the right to examine any records pertaining to the Work and as may be requested by federal or state governmental agencies, courts of law, or consultants hired by the Owner. Owner may audit records necessary to permit evaluation and verification of claims submitted, and Consultant's compliance in the performance of the Work, and with its dealings with Owner, with (a) the Agreement requirements; and (b) Owner's Principles of Business Conduct

governing business ethics. Consultant shall retain and preserve all information relating to the Work for a period of three years following final payment for Work performed under the Agreement. Notwithstanding anything herein to the contrary, any audit hereunder must (i) be at Owner's sole expense, (ii) be upon reasonable advance notice to Consultant and during Consultant's normal business hours, (iii) not unreasonably interfere with the business operations of Consultant, (iv) absent Consultant's default, be limited to once in any twelve month period, unless otherwise required by law, (v) be limited to books, records and personnel of Consultant directly relating to the services performed under this Agreement and (vi) at Consultant's request, be subject to the execution of a confidentiality agreement satisfactory to Consultant. In connection with any such audit, Consultant shall under no circumstances be required to breach (i) any obligations of confidentiality it may owe to any of its employees or any third party client or (ii) any applicable law.

21. **Safety.** Consultant shall perform the Work in a safe and careful manner and use such safety devices and methods as are necessary to protect its employees and agents, subcontractors, other consultants or contractors, Owner's employees and agents, and the public from harm and damage. If required by Owner, Consultant will provide a copy of its drug/alcohol policy.

If required by Owner, Consultant must meet certain security criteria set forth herein and shall submit to Owner a copy of its background investigation process for Owner's review and file. If Owner, in its sole discretion, determines that Consultant's background investigation does not meet certain specific requirements, then Consultant, at its expense, must perform a background investigation that does meet Owner's certain specific requirements on each individual designated by Consultant to perform Work, or who is performing Work on behalf of Consultant for Owner.

Owner's certain specification requirements of background investigation include the following (i) determination of whether an individual has been convicted of a felony crime in each state where the individual has resided during the past seven years, (ii) performance of the background investigation at the state level (in other words, to only search the records of the county in which the individual has resided during the past seven years is not a sufficient background investigation); and (iii) if the individual is to operate a motor vehicle while performing Work for Owner, then a state operator's license abstract must be completed in the states where the individual has been licensed as a vehicle operator during the past seven years.

If any background check indicates that an individual has been convicted of a felony crime, then the Consultant must notify the Owner prior to the individual commencing Work. Owner in its sole discretion shall have the option of barring from any Work site or from providing any Work any individual who has a reported felony conviction.

Consultant shall not perform any screening activities that violate the federal Fair Credit Reporting Act, Title VII of the Civil Rights Act of 1964 or any other applicable law. Consultant shall ensure that the substance and manner of and all background investigations performed by Consultant conform fully to applicable law.

22. **Miscellaneous.** The effective date of the Agreement shall be the earlier of the date on which Consultant begins performance hereunder or the date of the later signature on the Agreement. No waiver by either party of any default shall be deemed a waiver of any subsequent default. The Agreement constitutes the entire agreement of the parties. If any provision of the Agreement is held to be invalid, such invalidity shall not affect the remaining provisions of the Agreement. Amendments to the Agreement must be in writing and signed by both parties. Headings are provided for the convenience of the parties, and shall not affect the interpretation of any provision. The Agreement shall be governed by the laws of the State of Ohio. Consultant agrees

**PROFESSIONAL SERVICES AGREEMENT GENERAL TERMS AND CONDITIONS**

that all actions and proceedings brought by Owner against Consultant may be litigated in courts located in the State of Ohio. Consultant agrees that such courts are convenient forums and irrevocably submits to the personal jurisdiction of such courts.

**END OF DOCUMENT**