

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR ADJUSTMENT OF ELECTRIC)
RATES OF KENTUCKY POWER COMPANY) CASE NO. 91-066

O R D E R

IT IS ORDERED that Kentucky Power Company ("Kentucky Power") shall file the original and 12 copies of the following information with the Commission by June 28, 1991, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

The Commission has reviewed the responses provided by Kentucky Power to the May 10, 1991 Order and finds that Kentucky Power did not place its responses in a bound volume nor did it tab each item. Kentucky Power is reminded that the responses to this Order are to be placed in a bound volume with each item tabbed.

1. Concerning the response to Item 4 of the May 10, 1991 Order, Kentucky Power indicated that it had not included an adjustment in its rate case to reflect its allocation of the estimated current year net operating tax loss of its parent company, the American Electric Power Company, Inc. ("AEP"). An adjustment similar to this was made by the Commission in Case No. 9061.¹ Provide a detailed explanation as to why such an adjustment should not be made in this rate case. If the amount for this adjustment is different than the amount shown in the 1990 Annual Report, provide the calculation of the appropriate amount.

2. Concerning the response to Item 7 of the May 10, 1991 Order, the response does not adequately satisfy the request. Specifically:

a. The description of the deferred tax item did not include a description of the circumstances necessitating the item.

b. Of the 49 items listed in Item 7, sheet 2 of 2, only 13 could be matched to the calculations shown in Section V, Workpaper S-10, pages 5 through 10 of 10 of the application.

c. Of the 13 items that did match, none of the calculations shown in Section V, Workpaper S-10, pages 5 through 10 of 10 adequately support the determination of the deferred federal income tax before adjustment for feedback.

d. The calculations shown in Section V, Workpaper S-10, pages 5 through 10 of 10 do not include the requested information

¹ Case No. 9061, General Adjustment in Electric Rates of Kentucky Power Company, Order dated December 4, 1984, page 37.

concerning the Investment Tax Credits.

Provide the information as was originally requested.

3. Concerning the response to Item 8 of the May 10, 1991 Order, provide a listing of the orders Kentucky Power is referring to in this response.

4. Concerning the response to Item 9 of the May 10, 1991 Order, explain why the calculation of the daily burn rate used a 3-year average of the actual monthly burn rates.

5. Concerning the response to Item 10 of the May 10, 1991 Order, since the United Mine Workers of America did reopen its contract prior to the anniversary date and a settlement was reached without a labor disruption, explain why it is necessary to use a 75 day supply of coal in the calculation of a coal stock adjustment.

6. Concerning the response to Item 13 of the May 10, 1991 Order, provide the following payroll information:

a. The total Exempt employees' payroll for the period December 16 through 31, 1990, exclusive of overtime.

b. The total Non-Exempt-Division employees' payroll for the period December 15 through 28, 1990, exclusive of overtime.

c. The total Non-Exempt-Plant employees' payroll for the period December 8 through 21, 1990, exclusive of overtime.

d. Indicate the number of overtime hours, by employee classification, represented by the dollar amounts shown in part e.

e. Explain why Kentucky Power does not maintain breakdowns of overtime pay between one-half pay and double-time pay.

f. Explain why Kentucky Power does not maintain information concerning the shift premiums paid.

7. Provide a copy of one page from any payroll register or printout generated during the test year. References to employee names, social security numbers, or individual pay information may be blotted out in this response.

8. Concerning the response to Item 15 of the May 10, 1991 Order, where Kentucky Power annualized the December 1990 insurance expense, indicate whether the "contribution holiday" for the AEP System's Group Long-Term Disability Insurance Plan was reflected in the annualization. Indicate when the "contribution holiday" was ended.

9. Concerning the response to Item 16 of the May 10, 1991 Order, provide the following information:

a. Identify the dollar impact on the net pension costs of each item referenced by Kentucky Power in part a.

b. Indicate whether Financial Accounting Standards Board ("FASB") Opinion No. 87 was a factor causing the doubling of the net pension costs between 1989 and 1990.

c. Explain the nature of the Voluntary Employee Beneficiary Association trust fund.

d. Explain how it was determined that a contribution of \$760,000 was needed to be made in the test year.

e. Identify any other test year costs associated with this contribution.

f. Describe the level of costs Kentucky Power expects to incur over the next three years during the transition period for FASB Opinion No. 106.

10. Concerning the response to Item 18 of the May 10, 1991 Order, provide the following information relating to the employee savings plan:

a. Indicate the number of employees, by employee classification, who participated in the plan as of test year end and as of the end of the last 4 calendar years.

b. Indicate the number of employees, by employee classification, who contributed between 7 percent and 16 percent of their base compensation as of the test year end and as of the end of the last 4 calendar years.

c. Indicate the amount of administrative expenses of the plan paid by Kentucky Power, for the test year and the 4 previous calendar years. For any change in administrative expenses between any two years that is greater than 5 percent, explain the reason(s) for the change.

d. Identify the account(s) in which the administrative expenses were recorded.

11. Concerning the response to Item 20 of the May 10, 1991 Order, describe what is meant on sheet 2 of 2 by the phrase "non-depreciable property." For each functional group, provide examples of property considered "non-depreciable."

12. Concerning the response to Item 21 of the May 10, 1991 Order, provide the following information:

a. Indicate whether Kentucky Power expensed or deferred the costs identified for the management audit. Describe the accounting treatment and entries made for these costs.

b. On sheet 4 of 50, explain the reason for the \$11,278.68 adjustment to the invoice.

c. Explain why Kentucky Power hired a temporary executive secretary during the management audit. Include an explanation of the duties of this temporary employee.

d. Explain why the \$6,813.40 expense for this secretary should be included in the amount amortized as management audit expense.

e. Explain why the shipping expense of \$150.00 and the supplies expense of \$801.24 should be included in the amount amortized as management audit expense.

13. Concerning the proposal to amortize the management audit expense and the rate case expense over a two-year period, explain in detail how Kentucky Power determined these tariffs would be in effect for only two years.

14. Concerning the response to Item 24 of the May 10, 1991 Order, explain why the invoices for the publication of notices shown on sheets 4 through 9 of 9 do not equal the \$7,646 of expense shown on sheet 2 of 9.

15. Concerning the response to Item 25 of the May 10, 1991 Order, provide a schedule similar to the one shown on sheet 2 of 2 showing all leases in effect during the previous 4 calendar years.

16. Concerning the response to Item 26 of the May 10, 1991 Order, provide the following information:

a. Explain how the utility industry generally uses the Handy-Whitman Contract Labor Index.

b. Describe the types of expenses included by Kentucky Power as storm damage expense exclusive of in-house labor.

c. Explain why an index based on the average change in the cost of contract labor (Handy-Whitman) would be more appropriate to use for this adjustment than an index based on the change in the costs of goods and services (Consumer Price Index).

17. Concerning E. L. Berginnis' testimony on customer deposits, at page 11 he states that customer deposits are similar to customer advances for construction in that both are a source of funds to Kentucky Power. However, Kentucky Power's tariff states that the deposit may be required of customers as a security for the payment of bills. Explain why customer deposits are viewed as a source of funds when Kentucky Power's tariff identifies them as a security for the payment of bills.

18. Concerning the response to Item 30(b) of the May 10, 1991 Order, the cross-reference to the AG's Data Request, 1st Set, Item 204 does not explain the effects a reduced coal inventory would have on the level of handling, processing, and storing expenses for coal inventory. Provide the originally requested information, and indicate whether there is a relationship, either direct or indirect, between the coal inventory and the related operating expenses.

19. Concerning the response to Item 31(b) of the May 10, 1991 Order, explain how the \$15,827,629 in Demand Related System Sales and the \$27,644,723 in Energy Related System Sales were determined. Also, if these expenses are directly related to non-jurisdictional system sales, explain why these expenses should be added back to determine Kentucky Power's jurisdictional working capital requirement.

20. Concerning the response to Item 33 of the May 10, 1991 Order, provide the following information:

a. Explain how a comparison of the current jurisdictional allocation factors to the prior rate case jurisdictional allocation factors serves as a means to check the reasonableness of the factors.

b. The response states that these factors are only prepared at the time of a filed rate case. Indicate whether the Annual Reports on file with the Commission reflect only Kentucky Power's jurisdictional activity or both jurisdictional and non-jurisdictional activity.

21. Contained in the response to Item 35 of the May 10, 1991 Order, pages 75 through 93 of 109, is a listing of the charges by work order from the AEP Service Corporation ("AEPSC"). For each work order listed below, provide a description of the nature of the charge and indicate in what account number(s) the charge was recorded:

a. Work Order No. 1003, Expenditures for certain civic, political and related activities, page 75 of 109.

b. Work Order No. 1010, Expenditures for certain civic, political and related activities, page 75 of 109.

c. Work Order No. 1311, Contributions to local organizations by AEPSC, page 75 of 109.

d. Work Order No. 1375, Service rendered related to 1988 Management Audit of Kentucky Power by the Kentucky Public Service Commission, page 78 of 109.

e. Work Order No. 2206, Services rendered RE: General rate activity related to State of Kentucky, page 78 of 109.

f. Work Order No. 2212, General rate activity - all operating companies, page 78 of 109.

g. Work Order No. 1000, Services for the Coalition for Environmental Energy Balance, page 79 of 109.

h. Work Order No. 1091, Acid rain policy & regulatory issues - I.E., UARG, CEEB & OEUI programs, page 79 of 109.

i. Work Order No. 1369, Services to secure additional Japanese manufacturing plants as operating company customers, page 85 of 109.

j. Work Order No. 1500, General services by the Public Affairs Department, page 89 of 109.

k. Work Order No. 1507, General services by the Public Affairs Department for Kentucky Power Co., page 89 of 109.

22. A review of the information contained in the response to Item 35, pages 75 through 93 of 109, shows that several references are made to charges for the operating companies. Provide the following information:

a. An explanation as to whether these charges for the operating companies relate only to charges directly assignable to Kentucky Power or reflect an allocation of AEPSC charges for the other AEP operating companies to Kentucky Power.

b. If these charges reflect an allocation of AEPSC charges for the other AEP operating companies, explain why charges for other AEP operating companies should be recovered from Kentucky Power ratepayers.

23. Pages 94 through 109 of 109 of the response to Item 35 of the May 10, 1991 Order contain the AEP billing charges for 1990. Several of the work orders are identified as pertaining to salaries. Provide a description of the nature of these salaries and describe how Kentucky Power records the AEP billing charges on its books.

24. In response to Item 36 of the May 10, 1991 Order, Kentucky Power stated that AEP is not eligible for membership in the Electric Power Research Institute ("EPRI"). However, in response to Item 41, Kentucky Power states that "AEP and EPRI have agreed that AEP can join EPRI on a progressive basis as individual operating company rate cases including EPRI dues are decided." Explain whether AEP can or cannot become a member of EPRI.

25. In response to Item 38 of the May 10, 1991 Order, Kentucky Power indicated that it did not expect that the amount of AEP research and development costs presently paid by it would be reduced by EPRI membership. Provide a thorough explanation of how Kentucky Power arrived at this conclusion. Prepare a comparison

of the AEP research and development programs for 1990 and 1991 to the research programs by EPRI for the same period.

26. In Case No. 90-158,² an adjustment was proposed to include post-test-year EPRI membership dues. In its December 21, 1990 Order, the Commission acknowledged the importance of utility research and development projects, but stated that in order to properly include the dues in the case, the expected cost savings from membership would also have to be included. Because the expected savings were not included, the proposed adjustment was rejected. Given this position, explain why the Commission should include EPRI membership dues for Kentucky Power in this rate case without any adjustments to reflect the benefits of EPRI membership.

27. Concerning the response to Item 42 of the May 10, 1991 Order, provide a schedule similar to the one shown on sheet 2 of 2, Item 25, for the leases with the BLC Corporation and Riverside Funding, Inc.

28. Concerning the response to Item 42 of the May 10, 1991 Order, provide the following information:

a. Sheet 3 of 6 - Explain why a 4 percent multiplier was applied to the 1989 Sprigg labor costs.

b. Sheet 3 of 6 - Explain why 60 percent was used as the O & M Labor percentage.

² Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, Order dated December 21, 1990, page 35.

c. Sheet 5 of 6 - Explain how the test year and average monthly O & M Bare Labor Cost figures were determined. Include all supporting calculations and workpapers.

d. Sheet 6 of 6 - Explain why 2,080 hours were used in calculating the annualized transportation cost.

29. The response to Item 48 of the May 10, 1991 Order deals with expenses recorded in Account No. 912, Demonstrating and Selling Expenses. The Uniform System of Accounts ("USoA") indicates that expenses recorded in this account have the object to promote or retain the use of utility services by present and prospective customers. Provide the following information:

a. A description of the purpose of the SMART HOUSE project. Indicate where the construction took place. Explain why Kentucky Power was charged a portion of the total charges.

b. Describe in detail the workings of the school range lease program. Include how Kentucky Power records the income it receives from the school range lease program.

c. Given the account definition in the USoA, it would appear that expenses recorded in this account would be related to promotional advertising. Promotional advertising expenses are not allowable for rate-making purposes according to 807 KAR 5:016, Section 4. Explain how the expenses recorded in Account No. 912 do not constitute promotional advertising by Kentucky Power.

30. Concerning the response to Item 49 of the May 10, 1991 Order, provide the following information:

a. The response did not completely answer the request. Explain in detail why overtime charges between 1988 and 1989

increased 27.0 percent and why overtime charges between 1989 and 1990 increased 25.5 percent.

b. The actual overtime hours worked for calendar years 1981 through 1984.

c. Identify the causes for overtime work at Kentucky Power.

31. Concerning the wage and salary rates paid to Kentucky Power's employees, indicate whether Kentucky Power is solely responsible for establishing the rates or if the rates are coordinated with the wage and salary rates offered at other AEP operating companies. If the rates relate to other AEP companies, explain how the rates are comparable to the labor rates in Kentucky Power's service area.

32. The response provided for Item 51(c) of the May 10, 1991 Order does not adequately satisfy the request. Kentucky Power was requested to provide a calculation of the revenue requirements impact of amortizing the "unprotected" excess deferred income taxes over a 5-year period. Kentucky Power indicated that it had not made such a calculation. This response is not adequate. Prepare the originally requested calculation, including all supporting calculations and workpapers.

33. The response provided for Item 52 of the May 10, 1991 Order does not adequately satisfy the request. Kentucky Power was requested to provide an analysis of Account No. 913, Advertising Expense, similar to that provided in response to Item 24(b) of the March 20, 1991 Order, pages 5 through 19 of 25. Kentucky Power responded by stating that it did not record advertising expenses

by specific advertising media in Account No. 913. The request was not seeking a breakdown by advertising medium, but an analysis of the types of advertising, such as "System Magazine Ads in Trade Magazines" and "Volunteerism Ads" as shown in Item 24(b). With this clarification, provide the requested information concerning the advertising expenses recorded in Account No. 913.

34. For each of the items listed below, provide an analysis of the expenses incurred during the test year for advertising and promoting the item. Promotions include, but are not limited to, incentives to dealers or home builders, loan programs, rebates, or product discounts. Indicate the account numbers where the expenses were recorded.

- a. Heat Pumps.
- b. Electric Thermal Storage.
- c. Geothermal Storage.
- d. Improving Home Insulation.
- e. Other energy efficient products (specify).

Also provide an explanation as to why these advertising and promotional expenses should be included for rate-making purposes, given the restrictions of 807 KAR 5:016, Section 4.

35. Based on a review of the information provided in the response to Item 53 of the May 10, 1991 Order, it appears that the 15 listed organizations are involved to some extent in either economic development or lobbying activities. Provide a detailed explanation as to why the expenses for economic development and lobbying activities should be included for rate-making purposes.

36. Concerning the response to Item 53(d), the direct ratepayer benefit of Kentucky Power's membership in the Edison Electric Institute ("EEI"), provide the following information:

a. Any studies or analyses which have evaluated the costs and benefits of EEI membership for Kentucky Power.

b. A schedule quantifying the savings experienced by Kentucky Power due to its membership.

c. Explain how the savings quantified in (b) are flowed back directly to the ratepayers.

37. The responses to Item 54(a) and (c) of the May 10, 1991 Order did not adequately answer the request. Kentucky Power was asked to indicate when it joined EEI and whether it could receive the benefits of EEI membership if AEP was a member but Kentucky Power was not. The intent of the request was to identify the year Kentucky Power joined EEI and to determine if EEI membership benefits could flow to Kentucky Power through AEP. With this qualification, provide the information originally requested.

38. Concerning the response to Item 56(d) of the May 10, 1991 Order, explain why the allocated portion of federal income taxes and credits generated by the AEPSC have been recorded in Account No. 930 instead of the appropriate income tax accounts.

39. Concerning the Employee Heat Pump Loan Program, provide the following information:

a. Describe the workings of the loan program. Include the terms and conditions of the program and copies of any material provided to Kentucky Power employees concerning the program.

b. Indicate when the loan program started and how Kentucky Power determined that such a program was needed.

c. Indicate the number of loan participants and the value of the outstanding loans. This information is to be provided as of test year end and as of the end of the previous four calendar years.

d. Indicate the total expenses recorded by Kentucky Power related to this loan program. This information is to be provided for the test year and the four previous calendar years.

e. Indicate whether a similar loan program is available to the customers of Kentucky Power.

40. Concerning the response to Item 58 of the May 10, 1991 Order, provide the following information:

a. Identify the member companies of the Utility Water Act Group and indicate whether this group's activities are a form of lobbying activity.

b. A description of Kentucky Power's test year Constructive Marketing Program.

c. Indicate whether the legal fees and expenses incurred in connection with the Coal Combustion Environmental Regulations were a form of lobbying activity.

d. Explain why Kentucky Power was involved with heat pump certification of dealers.

41. Concerning the response to Item 60 of the May 10, 1991 Order, provide a revised copy of Kentucky Power's response to Item 28 of the March 20, 1991 Order, page 2 of 2, reflecting the

adjustments to the amounts identified in Item 60 as "Reinstatements."

42. Concerning the response to Item 64 of the May 10, 1991 Order, provide the following information:

a. A breakdown of the \$37,842 in Other Benefits - Social & Recreational between expenses actually incurred by Kentucky Power and those allocated from AEP and AEPSC.

b. Explain in detail why these expenses should be included for rate-making purposes.

43. Concerning the response to Item 66 of the May 10, 1991 Order, provide the test year cost of Customer Accounts Recognition program dinners.

44. Concerning the response to Item 67, sheet 2 of 2, for each system or program, explain why the costs were expensed instead of capitalized.

45. Concerning the response to Item 69, sheet 2 of 2, for each division identified in this response, provide the primary reason(s) for the actual overtime labor exceeding the budgeted overtime labor.

46. Concerning the response to Item 71 of the May 10, 1991 Order, provide a detailed explanation as to how Kentucky Power could effectively evaluate the costs and benefits of its five customer offices without having the fixed and operating costs of each office available.

47. Concerning the response to Item 72(e), provide a breakdown of the \$204,292 reclearing cost between normal

reclearing and the additional reclearing required for the study. Indicate what portion of these costs, if any, were capitalized.

48. Concerning the response to Item 76 of the May 10, 1991 Order, provide a timetable reflecting the take over of the Sprigg area operations, by calendar year. For each year shown, describe the portion of the operations being assumed by Kentucky Power and the annual savings expected for each year. If the total expected annual savings are different than the \$730,000 indicated in the management audit progress reports, explain the reason(s) for the difference.

49. Concerning the response to the AG 1st Set, Item 13, prepare a calculation of what Kentucky Power's EEI dues would have been in the test year if Kentucky Power had paid the dues directly.

50. Item 77 of the response to the Commission's May 10, 1991 Order includes revised rates based on the new base fuel rate of 12.92 mills per KWH. These revised rates include energy charges for the QP, CIP-TOD, and IRP Tariffs of 1.302 cents, or 13.02 mills, per KWH at transmission service voltage.

a. Explain the derivation of these energy charges at .10 mills above the base fuel cost.

b. Explain how .10 mills was developed as the adder to the base fuel cost.

c. If the Commission determines that Kentucky Power's revenues should be reduced by a greater amount than proposed by Kentucky Power, explain how Kentucky Power would propose to

reflect the greater decrease in the QP, CIP-TOD, and IRP Tariffs given the constraints on further reducing the transmission level energy charges.

51. Item 78(b) of the response to the Commission's May 10, 1991 Order addresses the discount provision for employee electric service. Verify the accuracy of the following description of the discount provision: All employees receive a discount on the first energy block; employees with electric heat pay no customer charge; and, employees without electric heat pay one-half the standard customer charge.

52. Item 79(a) of the response to the Commission's May 10, 1991 Order addresses Kentucky Power's historical net revenues from system sales. For the months on record in 1991, provide the monthly net revenues from system sales.

53. Provide a comparison of the costs associated with preparing a cost-of-service study using a 12-CP demand allocation methodology and a cost-of-service study using a TOD methodology.

54. Describe the additional costs involved in preparing a TOD study as referred to in response to Item 81(a) of the Commission's May 10, 1991 Order.

55. The response to Item 81(c) of the Commission's May 10, 1991 Order does not adequately satisfy the request. Provide the information as was originally requested.

56. The response to Item 81(d) of the Commission's May 10, 1991 Order does not adequately satisfy the request. Provide the information as was originally requested.

57. Using the workpapers filed in response to Item 81(e) of the Commission's May 10, 1991 Order and any other necessary information, describe the derivation of each allocation factor shown on Exhibit MSB-1, pages 49-56. Explain the process in which the allocation factors shown on Exhibit MSB-1, pages 57-60 are internally derived in the cost-of-service program, as stated in response to Item 81(e) of the Commission's May 10, 1991 Order.

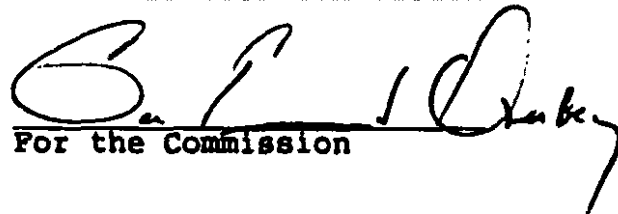
58. Explain why the methodology used in the cost-of-service study to assign distribution plant to the retail customer classes is reasonable, as stated in response to Item 81(f) of the Commission's May 10, 1991 Order.

59. Explain why Kentucky Power did not classify distribution plant into demand and customer components in the cost-of-service study filed in this case.

60. Item 82(f) of the response to the Commission's May 10, 1991 Order explains the use of a three-year historical average capacity credit. Provide, in a format similar to Berndt Exhibit MSB-4, the AEP system capacity credits calculated for the years 1986 and 1987 and for the months of January through May in 1991.

Done at Frankfort, Kentucky, this 19th day of June, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director