

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that the Attorney General's office, Utility and Rate Intervention Division ("AG"), shall file the original and 12 copies of the following information with the Commission by August 26, 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.

QUESTIONS FOR THOMAS C. DEWARD

1. Concerning the adjustments to jurisdictional capital structure described on pages 5 and 6 of Mr. DeWard's testimony, provide the following information:

a. Explain why Mr. DeWard has adopted the Kentucky Power Company ("Kentucky Power") proposal to adjust short-term debt to reflect an adjustment for coal inventory.

b. Explain why Mr. DeWard believes it is appropriate to adjust only the short-term debt for the coal inventory adjustment.

c. Explain whether Mr. DeWard believes the source of funding for a non-utility investment should be a factor in determining how to adjust the capital structure for rate-making purposes. Indicate whether such a consideration has been made in the proposal to remove the non-utility investments solely from common equity.

2. On page 7 of his testimony, Mr. DeWard states that if the 11.75 percent return on common equity proposed by Mr. Kinloch is not adopted by the Commission, the allowed return on common equity should not exceed 12.15 percent, which was the rate granted in the most recent Kentucky-American Water Company general rate case. Mr. DeWard states that the 12.15 percent return reflects a recent decision of the Commission in a major utility rate case. Explain in detail why the return on common equity granted to a water utility should serve as a guide as to the appropriate return on common equity for an electric utility.

3. Explain why Mr. DeWard did not present a net original cost rate base for Kentucky Power. Indicate whether Mr. DeWard adopts the rate base calculated by Kentucky Power.

4. Concerning Mr. DeWard's proposed adjustment to advertising expenses, Mr. DeWard has cited 807 KAR 5:016, Section 4, in support of his adjustment. Under Section 3 of that same regulation, advertising that produces a "material benefit" is allowed in rates. A specific example of material benefit cited in

the regulation is advertising which demonstrates means for ratepayers to reduce their bills or conserve energy. Explain whether Mr. DeWard believes the heat pump advertising would be allowable in rates, in whole or in part, under 807 KAR 5:016, Section 3.

5. Explain in detail how the expenses associated with the "Smart House" project fall under the restrictions on advertising outlined in 807 KAR 5:016, Section 4.

6. Describe the analysis performed by Mr. DeWard which supports his statement on page 12 of his testimony that "[R]atepayers should not be required to pay for the accrual of a Management Incentive Plans [sic] or deferred compensation plans under the assumption that management employees are already adequately compensated for their services through salary and numerous fringe benefits provided to them." Include copies of any studies or workpapers prepared for the analysis.

7. Concerning page 13 of his testimony, explain why Mr. DeWard believes a 4-year amortization period for rate case expenses is reasonable.

8. Concerning page 16 of his testimony, explain how Mr. DeWard determined that a 4-year period allows for a matching of the savings resulting from the management audit with the costs.

9. Concerning Mr. DeWard's proposed adjustment relating to the Sprigg consolidation, provide the following information:

a. Explain why the projected savings for 1991 were excluded from the calculated adjustment.

b. Explain how the projected savings from the Sprigg consolidation represent known and measurable adjustments.

c. Explain how the Commission can make such an adjustment if this case is being evaluated using a historical test year.

10. Exhibit TCD-1, Schedule 1, shows Mr. DeWard's proposed reduction in revenue requirements. Included in this schedule is the proposed revenue reduction by Kentucky Power, which was computed using a gross revenue conversion factor containing a component for uncollectible accounts.

a. Indicate whether Mr. DeWard's proposed reduction in revenue requirements reflects a corresponding adjustment to uncollectible accounts.

b. Indicate whether Mr. DeWard accepts Kentucky Power's usage of a gross revenue conversion factor which contains a component for uncollectible accounts.

QUESTIONS FOR DAVID H. KINLOCH

11. On page 41 of Mr. Kinloch's testimony he states that:

a. The electric heat pump wastes energy when it is compared to a high-efficiency gas furnace,

b. Electric heat pumps add to the utility's peak load, and

c. Electric heat pumps destroy a utility's load factor because of their reduced energy use as compared to resistance heat.

Provide documentation which supports the positions stated for each of these three points.

12. Concerning the discussion of Electric Power Research Institute ("EPRI") membership dues on pages 46 through 49 of Mr. Kinloch's testimony, indicate what analysis Mr. Kinloch has performed of the decisions of other regulatory commissions concerning EPRI membership dues. Include a detailed explanation of the results of any analysis performed.

13. Concerning Mr. Kinloch's proposed adjustments relating to nuclear research, page 49 of his testimony, provide the following information:

a. Kentucky Power purchases some of its electric supply through the American Electric Power Company, Inc. ("AEP") Power Pool. Indicate whether it is Mr. Kinloch's understanding that there is some nuclear-generated electricity available from the AEP Power Pool.

b. Indicate whether Mr. Kinloch would agree that Kentucky Power's ratepayers may have indirectly received limited benefits from nuclear research through Kentucky Power's involvement with the AEP Power Pool.

14. Concerning page 53 of his testimony, explain in detail how Mr. Kinloch reaches the conclusion that "[m]ost of the organizations on this list are obviously inappropriate for rate-making purposes." Include a discussion of why the listed organization dues are inappropriate for rate-making.

15. Concerning page 63 of his testimony, explain in detail how Mr. Kinloch reaches the conclusion that the expenses listed on

Exhibit DHK-18 are a "[l]ist of expenses I feel quite sure are inappropriate for inclusion in consumer rates." Include a discussion of why the expenses on Exhibit DHK-18 are inappropriate for rate-making purposes.

16. Exhibit DHK-17 is an article that was published in November/December 1985. Indicate whether Mr. Kinloch is aware of any more recent articles which discuss the purpose of the Edison Electric Institute ("EEI"). Provide copies of these articles.

17. Exhibit DHK-17 contains an analysis of the regulatory treatment of EEI dues in various jurisdictions. Indicate whether Mr. Kinloch has reviewed commission decisions on EEI membership dues issued since 1985. Provide the results of this review.

18. Provide a complete explanation of how Exhibit DHK-1 was developed. Explain what each line and column is intended to show and how the amounts shown in these lines and columns were derived. Provide all appropriate workpapers and calculations.

19. Provide a complete explanation of how Exhibit DHK-4 was developed. Explain what each line and column is intended to show and how the amounts shown in these lines and columns were derived. Provide all appropriate workpapers and calculations.

20. Provide a complete explanation of how the table shown on page 12 of Mr. Kinloch's prefiled testimony was developed.

21. On page 13 of his testimony, Mr. Kinloch explains that the TOD allocation method was chosen for the purpose of allocating production, transmission, and sub-transmission costs. Was this method chosen simply because it falls midway between the 12 CP and

energy methods or are there features of the TOD method which make it preferable to either of the other two methods? Explain.

22. Identify the customer classes Mr. Kinloch refers to as "high growth classes" and "stable customer classes" on page 14 of his testimony.

23. Why were distribution costs at levels found in Kentucky Power Company's Case No. 9061 used by Mr. Kinloch as a benchmark for his distribution cost allocation as described on pages 15-16 of his testimony? Why did Mr. Kinloch assume that the costs found in Case No. 9061 were normal or standard distribution costs? Explain fully.

24. Explain why Mr. Kinloch did not bifurcate distribution plant costs into demand and customer components by using a zero-intercept, minimum system, or similar methodology.

25. On page 16 of his testimony, Mr. Kinloch explains that he reviewed the forfeited discount allocation used by Louisville Gas and Electric Company ("LG&E") in Case No. 90-158. Did Mr. Kinloch review the forfeited discount allocation methodologies used by other utilities? If yes, provide the findings of this review. If no, explain why the allocation methodologies of utilities other than LG&E were not reviewed.

26. Explain why it is appropriate to use LG&E's forfeited discount allocator in Mr. Kinloch's cost-of-service study.

27. On page 16 Mr. Kinloch asserts that Mr. Berndt's method of allocating forfeited discounts on the basis of total revenues is inappropriate. Explain why Mr. Berndt's method is inappropriate.

28. Identify which allocation factors used in Mr. Kinloch's cost-of-service study as shown in Exhibit DHK-6 are different from those used by Mr. Berndt in his cost-of-service study.

29. Explain why Mr. Kinloch, as shown on page 20 of his testimony, assumes that a reduction in sales to a particular "risky" class will necessarily result in a reduction in that class' demand.

30. Explain why it is appropriate to use the reductions in sales to industrial classes on AEP's system during the 1979-1982 and 1981-1982 time periods to form the high and low scenarios, respectively, in Mr. Kinloch's risk evaluation methodology as described on page 22 of his testimony.

31. Provide all workpapers and calculations used in developing Exhibits DHK-7, DHK-8, and DHK-9. Explain how the amounts shown in each line and column of these exhibits were determined.

32. The results of Mr. Kinloch's cost-of-service study, shown in Exhibit DHK-6, reflect the use of the TOD method allocators in Exhibit DHK-1, the distribution allocators developed in Exhibit DHK-4, and the forfeited discount allocator shown in Exhibit DHK-5. In order to assess the separate impact of these allocation proposals, provide the following modified versions of Exhibit DHK-6:

- a. One using Mr. Kinloch's TOD and distribution allocators but with Kentucky Power's forfeited discount allocator.
- b. One using Mr. Kinloch's TOD allocators but with Kentucky Power's distribution and forfeited discount allocators.

33. Kentucky Power's response to Item 79(a) of the Commission's Order of May 10, 1991 indicates that system sales profits for the test year were at their highest level for any year from 1983 through 1990. That response also shows that for the 8-year period, 4 years showed profits above the adjusted level proposed by Kentucky Power and 4 years showed profits below the level proposed by Kentucky Power.

a. Given these historical results, explain the basis for Mr. Kinloch's reference to Kentucky Power's proposed level of system sales profits as the "absolute lowest point" on page 32 of his testimony.

b. Given the fluctuating nature of Kentucky Power's system sales profits, explain why it is reasonable to include the absolute highest point, from calendar year 1990, in setting rates that will be in place "far into the future," as proposed on page 32 of Mr. Kinloch's testimony.

c. In the last paragraph on page 32 of his testimony, Mr. Kinloch refers to "a base for sales profits to be used for a long time in the future." Has Mr. Kinloch given any consideration to a periodic revision to the base sales level reflecting more recent sales levels?

34. On page 37 of his testimony, Mr. Kinloch advocates either flowing all system sales profits to ratepayers or discontinuing the system sales profit sharing plan.

a. Of these two proposals, which does Mr. Kinloch prefer and explain why.

b. If there is no profit sharing plan, all profits above the base level utilized for rate-making purposes go to the shareholders. If there is no shareholder risk, as stated on page 33 of his testimony, explain why Mr. Kinloch recommends an approach under which all profits go to shareholders.

Done at Frankfort, Kentucky, this 12th day of August, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director