COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY POWER COMPANY D/B/A AMERICAN ELECTRIC POWER FOR APPROVAL OF AN AMENDED COMPLIANCE PLAN FOR PURPOSES OF RECOVERING THE COSTS OF NEW AND ADDITIONAL POLLUTION CONTROL FACILITIES AND TO AMEND ITS ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF	)	CASE NO. 2002-00169

SECOND DATA REQUEST OF COMMISSION STAFF
TO KENTUCKY POWER COMPANY

Kentucky Power Company, d/b/a American Electric Power (Kentucky Power), pursuant to Administrative Regulation 807 KAR 5:001, is requested to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before December 18, 2002. 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 person 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. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Direct Testimony of Errol K. Wagner (Wagner Direct Testimony), Exhibit EKW-5 and the response to the Commission Staff s First Data Request dated November 6, 2002, Item 2(c).

a. Concerning the revenues from sales to Associated Utilities shown on Exhibit EKW-5, does this category reflect only the sales of energy by Kentucky Power into the American Electric Power (AEP) Power Pool?

b. If the revenues shown for Associated Utilities on Exhibit EKW-5 include Kentucky Power s share of any revenues from the sales made by other members, provide a schedule separating the Associated Utilities revenues shown on Exhibit EKW-5 between Kentucky Power s energy sales to the AEP Pool and Kentucky Power s share of revenues from sales by other AEP Pool members.

c. Refer to the response to Item 2(c). Indicate whether any of the maintenance costs that Kentucky Power can recover through the AEP Interconnection Agreement are also included in the calculation of its monthly environmental surcharge factor.

d. Indicate whether any of the SO_2 emission allowance costs recovered by Kentucky Power from the Associated Utilities under the terms of the AEP Interim Allowance Agreement are also included in the calculation of its monthly environmental surcharge factor.

2. Refer to the Wagner Direct Testimony, Exhibit EKW-5 and the response to the Commission Staff s First Data Request dated November 6, 2002, Items 2(e) and 2(f). Using the revenue data shown in Exhibit EKW-5 for Non-Associated Utilities, prepare a schedule that separates the revenues in each month between revenues

resulting from Kentucky Power s sales to Non-Associated Utilities and Kentucky Power s member load share of the margins realized from AEP Power Pool sales.

3. The responses to Items 2(e) and 2(f) address the subject of sales to Non-Associated Utilities, and Kentucky Power explains why it believes the Commission s environmental surcharge allocation methodology concerning those revenues fails the cost to cost-causer rate-making principle. Kentucky Power has proposed that the Commission modify the environmental surcharge allocation methodology by assigning to Kentucky retail jurisdictional customers the costs currently assigned to Associated Utilities. If Kentucky Power believes that the current environmental surcharge allocation methodology incorrectly assigns costs to the Non-Associated Utilities, explain in detail why the proposed change in methodology is based on the Associated Utilities.

4. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 3(c), regarding the agreement reached by the parties in Federal Energy Regulatory Commission (FERC) docket Nos. EC01-130-000 and EC01-2668-000. That agreement concerns, among other things, Kentucky Power s seeking approval for having the environmental costs currently allocated to Non-Associated Utilities reflected in the monthly filing of its System Sales Clause, as shown in Exhibit 2 of the Settlement Agreement. Provide a detailed description of how the allocation methodology proposed by Kentucky Power in this proceeding complements, or comports with, this provision of the Settlement Agreement. Explain whether the two items are intended to operate together or whether they are exclusive of each other.

5. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 6, pages 3 and 4 of 4.

a. The schedule provided on page 3 of 4 shows no SO_2 emission allowances being received from the Environmental Protection Agency (EPA) for years 2000 and 2001. Explain why Kentucky Power did not receive SO_2 emission allowances in those years.

b. A comparison of the schedules on pages 3 and 4 of 4 would imply that Kentucky Power did not have a sufficient number of SO_2 emission allowances in its inventory to cover the actual usage in 2000 and 2001, even if Kentucky Power received 36,050 SO_2 emission allowances in both 2000 and 2001 from the EPA. Explain how Kentucky Power made up this apparent deficit in SO_2 emission allowances in each year.

6. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Items 8 and 13, which show, respectively, Kentucky Power s June 30, 2002 debt capital balance and its October 31, 2002 capital structure and balances.

a. Kentucky Power reported on June 30, 2002 no short-term debt and $456 million in long-term debt while on October 31, 2002 it reported $105 million in short-term debt and $386 million in long-term debt. Since the common equity balance was essentially unchanged over this 4-month period, is it accurate to conclude that approximately $70 million of the $105 million in short-term debt issued during this period was used to pay off or pay down the balance of long-term debt? Explain the response in detail.

b. The response to Item 8(b) describes $80 million in 5-year notes issued by Kentucky Power on November 12, 2002 to ACE Trust at a fixed interest rate of 4.3184 percent. Reflecting the issue of these notes, and any other changes that occurred in November, provide Kentucky Power s November 30, 2002 capital structure and balances in the same format as used for the October 31, 2002 capital structure and balances in the response to Item 13. This does not obviate the request included in Item 13(e) that Kentucky Power provide, no later than January 30, 2003, the same information as of December 31, 2002.

c. The response to Item 13(d) indicates that accounts receivable financing was not included in Kentucky Power s capitalization shown for October 31, 2002. Explain in detail why accounts receivable financing was not included.

d. Was Kentucky Power aware that the Commission had included accounts receivable financing in the environmental surcharge capital structure for Louisville Gas and Electric Company and Kentucky Utilities Company?[1]

e. In addition to the November 30, 2002 capital structure requested in part (b) above, provide the November 30, 2002 capital structure including Kentucky Power s accounts receivable financing. The December 31, 2002 capital structure due to be filed by January 31, 2003 should be presented excluding and including Kentucky Power s accounts receivable financing.

7. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 9.

[1] See Case No. 2000-00386, The Application of Louisville Gas and Electric Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Cost Recovery Surcharge Tariff, Order dated August 30, 2001; and Case No. 2000-00439, The Application of Kentucky Utilities Company for Approval of an Amended Compliance Plan for Purposes of Recovering the Costs of New and Additional Pollution Control Facilities and to Amend Its Environmental Surcharge Tariff, Order dated August 30, 2001.

a. Kentucky Power s response refers to a depreciation study based on plant balances as of December 31, 1989. When was Kentucky Power s last formal depreciation study performed?

b. If the last formal depreciation study was performed in the 1990-1991 time frame, explain in detail why Kentucky Power has not undertaken a formal study since that time.

c. Would Kentucky Power agree that performing a formal depreciation study every 3 to 5 years is a good business practice?

d. When does Kentucky Power plan on conducting its next formal depreciation study?

8. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 10, which indicates that Kentucky Power does not currently anticipate a need to purchase nitrogen oxide emission allowances (NOx allowances) to comply with existing requirements. Explain whether this anticipated ability to comply with existing NOx requirements is dependent on using the NOx early reduction credits (ERCs) discussed in the response to Item 15 of the request.

9. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 12(c). In its argument against the Commission s environmental surcharge allocation methodology, Kentucky Power states:

> These environmental facilities were not and are not designed and built to meet the requirements of the Non-Associated customers. These facilities are designed and built to meet the requirements of the full requirement customers.

Would Kentucky Power agree that the Commission considered and rejected this argument in Case Nos. 1996-00489[2] and 2000-00107?[3]

10. Refer to the responses to the Commission Staff s First Data Request dated November 6, 2002, Items 15 and 16, regarding NOx allowances and ERCs.

a. The response to Items 15(b) and (c) indicate that an ERC can be used in the same way as any other NOx allowance except that it must be used for compliance in 2004 or 2005 or it will expire and that the potential value for ERCs allocated to Kentucky Power s Big Sandy Plant is $4.5 million. Explain whether ERCs allocated to the Big Sandy Plant must be used for compliance only by Kentucky Power.

b. Can the ERCs allocated to the Big Sandy Plant be transferred or sold as other NOx allowances can be transferred or sold, as described in the response to Item 16? Explain the response in detail.

c. Will the $4.5 million potential value of the ERCs allocated to the Big Sandy Plant expire by the end of 2005 if not used for compliance prior to that time? If no, explain why not.

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[2] Case No. 1996-00489, Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products, final Order dated May 27, 1997 at 30-32; rehearing Order dated July 8, 1997 at 8-9.

[3] Case No. 2000-00107, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Power Company d/b/a American Electric Power for the Six-Month Billing Periods Ending December 31, 1998 and December 31, 1999, and for the Two-Year Billing Period Ending June 30, 1999, final Order dated February 8, 2001 at 11-12.

d. Explain in detail why a present value analysis of the cost of early compliance was not performed.

11. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 18, page 2 of 2.

a. Does the phrase $4900 for 50t mean $4,900 for 50 tons of NOx? If not, provide the correct reading of the phrase.

b. Does the phrase $4900 for 50t mean $4,900 for each ton or $4,900 for the entire 50 tons? Explain the response.

12. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 21. Kentucky Power was requested to explain why, if it had been experiencing curtailments attributed to poor electrostatic precipitator performance for 30 months, the situation had not been addressed and corrected prior to the time Kentucky Power was to install an SCR on Big Sandy Unit No. 2. While the response dealt with how Kentucky Power had attempted to address the problem, it did not explain why a problem in existence for 30 months had not been corrected prior to the installation of the SCR. Provide this portion of the original request.

13. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 22, page 4 of 6. Explain in detail the costs identified as Contractor Labor Inefficiency and RO System.

14. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 23(d), which indicates that the schedule for installing the Big Sandy SCR was not based solely on the needs of Kentucky Power. Refer also to the response to Item 15(d) of the Commission Staff s First Data Request, which indicates

that a present value analysis of the cost of early compliance has not been performed. Given that the estimated value of the ERCs allocated to the Big Sandy Plant is $4.5 million and that the calculated annual revenue requirement associated with the proposed amendments to Kentucky Power s environmental compliance plan is $21.0 million, explain how Kentucky Power s ratepayers will benefit from the Big Sandy SCR being installed a year prior to the compliance deadline.

15. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 32. Provide the case style, date, and the relevant portion of the Order in Case No. 8429.

16. Refer to the response to the Commission Staff s First Data Request dated November 6, 2002, Item 39. Mr. Moul provided similar information in Case No. 2002-00145,[4] Columbia Gas of Kentucky s pending rate case. In response to Item 17 of the Commission Staff s Third Data Request in that case, Mr. Moul also provided information regarding commission decisions rejecting the book to market value adjustment that he proposes.

a. Provide the relevant portions of any commission orders issued since the filing of that response, in Case No. 2002-00145, in which a commission rejected a book to market value adjustment.

b. Mr. Moul bases his proposed adjustment on the difference between the capital structure at market value and at book value. Describe the effect that the volatility of the stock price has on the calculation of the capitalization at market value.

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[4] Case No. 2002-00145, Adjustment of Gas Rates of Columbia Gas of Kentucky, Inc.

c. Explain how the point in time at which the capital structure is calculated affects the book to market adjustment proposed by Mr. Moul.

for Thomas M. Dorman
Executive Director
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DATED: December 4, 2002

cc: All Parties