

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	)	CASE NO.
COSTS OF NEW AND ADDITIONAL POLLUTION	)	2002-00169
CONTROL FACILITIES AND TO AMEND ITS	)	
ENVIRONMENTAL COST RECOVERY	)	
SURCHARGE TARIFF	)	

FIRST DATA REQUEST OF COMMISSION STAFF  
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc., pursuant to 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 January 23, 2003. 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 Lane Kollen ( Kollen Testimony ), page 9, where Mr. Kollen quantifies the first year total company revenue requirement for the Big

Sandy Unit 2 ( Unit 2 ) Selective Catalytic Reduction equipment ( SCR ) and the 13-month early compliance period revenue requirement.

a. Explain why Mr. Kollen determined these revenue requirement amounts using Kentucky Power Company s ( Kentucky Power ) requested return rather than the return he and Richard A. Baudino ( Baudino Testimony ) proposed.

b. Provide revised revenue requirement amounts for these two items using the capital structure and return proposed by Mr. Kollen and Mr. Baudino. Include all workpapers, schedules, and assumptions used in the revised calculations.

2. Refer to the Kollen Testimony, pages 10 and 11, where Mr. Kollen contends that Kentucky Power could avoid harm if the construction of the Unit 2 SCR were delayed and Kentucky Power continued to accrue Allowance for Funds Used During Construction ( AFUDC ) on the amounts previously expended.

a. What was the level of completion on the Unit 2 SCR as of the date Mr. Kollen finished his testimony?

b. Does Mr. Kollen advocate that Kentucky Power could accrue AFUDC on the Unit 2 SCR even if the construction was essentially completed, but the SCR had not been placed into service? Explain the response.

c. Did Mr. Kollen determine an estimate of the additional AFUDC Kentucky Power would accrue on the Unit 2 SCR if the project were delayed until May 1, 2004? If yes, provide the estimate along with all workpapers, schedules, and assumptions used to determine the estimate.

d. Did Mr. Kollen determine an estimate of the impact the additional AFUDC would have on the first year revenue requirement? If yes, provide the estimate along with all workpapers, schedules, and assumptions used to determine the estimate.

e. Did Mr. Kollen evaluate whether the delay would result in financial harm to Kentucky Power's ratepayers? Explain the response and provide copies of any evaluation performed. For purposes of this question, assume financial harm results if the increased costs of the delayed SCR are greater than the costs of early compliance.

f. If Mr. Kollen did not estimate the additional AFUDC or the impact the additional AFUDC would have on the revenue requirement, explain in detail how Mr. Kollen could determine whether a delay of the Unit 2 SCR results in financial harm to Kentucky Power's ratepayers. For purposes of this question, assume financial harm results if the increased costs of the delayed SCR are greater than the costs of early compliance.

3. Assume for purposes of this question that Kentucky Power suspends any further construction on the Unit 2 SCR as of January 1, 2003 and that the in-service date is delayed to May 1, 2004. Provide an estimate of the additional AFUDC Kentucky Power would accrue on the SCR during this delay period and the impact the additional AFUDC would have on the first year revenue requirement. Include all workpapers, calculations, and assumptions utilized to determine the estimate and impact.

4. Refer to the Kollen Testimony, page 11, concerning the sale of early reduction credits (ERCs).

a. Explain how and when the determination should be made that any awarded ERCs are unnecessary for Kentucky Power's compliance.

b. Explain in detail why Mr. Kollen believes the proceeds from the sale of ERCs should be amortized over 12 months.

c. Explain in detail the reasoning for reducing the environmental surcharge rate base by the amount of unamortized sales proceeds during the 12-month amortization period.

5. Refer to the Kollen Testimony, page 18, concerning Mr. Kollen's proposal that a cash working capital allowance should be included in the environmental surcharge rate base in Kentucky Power's surcharge mechanism.

a. Using the current ES Form 3.10, indicate the expenses that Mr. Kollen would include in the cash working capital  $1/8^{\text{th}}$  formula.

b. Does Mr. Kollen's proposal to include a cash working capital allowance in the environmental surcharge rate base apply only to the rate base for the Big Sandy generating units or does it also include the Rockport generating unit rate base? Explain the response.

c. Does Mr. Kollen's proposal to include a cash working capital allowance in the environmental surcharge rate base apply only to the current period rate base or both the current period and base period rate bases? Explain the response.

6. Mr. Kollen states that it would be appropriate to modify Kentucky Power's environmental surcharge mechanism to include a cash working capital allowance in the rate base, and that the cash working capital allowance should be determined using the  $1/8^{\text{th}}$  of operating and maintenance expense formula.

a. Is the proposal to include a cash working capital allowance in rate base and use of the  $1/8^{\text{th}}$  formula consistent with testimony Mr. Kollen has previously

filed in proceedings before the Kentucky Commission? If yes, provide citations to and copies of the relevant portions of Mr. Kollen's testimony recommending the inclusion in rate base of a cash working capital allowance that has been determined using the 1/8<sup>th</sup> formula.

b. Other than the issue of accounts receivable financing being included in Kentucky Power's capital structure and capitalization, explain why Mr. Kollen is proposing the inclusion in the environmental surcharge rate base of a cash working capital allowance determined using the 1/8<sup>th</sup> formula.

7. Refer to the Kollen Testimony, page 22, concerning the cost allocation of the new water treatment plant. In its response to the Commission Staff's First Data Request dated November 6, 2002, Item 19(b), Kentucky Power indicated that the cost of the 30 gpm water system is about the same as one half of the 120 gpm water system, due to economy of scale.

a. Does Mr. Kollen disagree with the cost statements provided by Kentucky Power in its response to Item 19(b) of the Commission Staff's data request? Explain the response.

b. Explain why the cost allocation should be based on the capacity utilized by the Unit 2 SCR rather than the cost of that capacity.

8. Refer to the Kollen Testimony, pages 27 through 30, concerning the cost recovery permitted under the 3-member American Electric Power (AEP) Interconnection Agreement (AEP IA).

a. What is the basis for Mr. Kollen's statement that the 3-member AEP IA has been recently implemented?

b. Did Mr. Kollen examine Kentucky Power's arguments about trapped costs using the Interconnection Agreement for the AEP Power Pool that was based on 5 members? If no, explain why not.

9. Refer to page 10 of the Baudino Testimony. Mr. Baudino states that he employed both a Discounted Cash Flow ( DCF ) analysis and a Capital Asset Pricing Model ( CAPM ) analysis, but did not incorporate the results of the CAPM analysis into his recommendation.

a. Explain the purpose of using a CAPM analysis if the results were not included in the recommendation.

b. Provide examples of state or federal agencies that award returns based solely on the DCF analysis.

10. Refer to page 20 of the Baudino Testimony. Mr. Baudino states that he estimated the expected dividend yield by multiplying the current dividend yield by one plus one-half the expected growth rate. Explain why one-half of the growth rate is used.

11. Refer to page 25 of the Baudino Testimony. Provide pages 242-255 from *A Random Walk Down Wall Street* referenced in footnote 3.

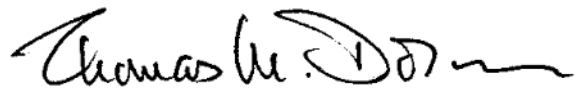
12. Refer to page 27 of the Baudino Testimony and Exhibit RAB-6. Mr. Baudino states that he used the average yields on the 20-year Treasury bond and 5-year Treasury note for his CAPM analysis.

a. Explain why Mr. Baudino did not include the 30-year Treasury bond in the analysis.

b. In Exhibit RAB-6, the second to the last line is Current 30-Year Treasury Bond Yield. Should this read 20-Year bond ?

13. Refer to page 37 of the Baudino Testimony. Mr. Baudino states that bond rating agencies and securities analysts do not assess a utility company's risk based on the market value of its capital structure, but on the book value of its capital structure. Explain why the book value is used rather than the market value.

14. Refer to Exhibit RAB-4. Explain why the dividend growth rate is substantially less than that of the earnings growth rates presented in the chart.



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cc: All Parties