COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENT OF ELECTRIC RATES OF KENTUCKY POWER COMPANY	))	CASE NO. 2005-00341

SECOND DATA REQUEST OF COMMISSION STAFF TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), 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 November 23, 2005. 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. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the response to the Commission Staff's First Data Request dated September 21, 2005 ("Staff's First Request"), Item 21. Kentucky Power was requested to provide separate schedules showing a comparison of the balance in the total

company and Kentucky jurisdictional revenue accounts for each month of the test year to the same month of the preceding year for each revenue account or subaccount included in its chart of accounts. Kentucky Power was directed to provide this information in the manner shown in Format 19 of the Staff's First Request. Kentucky Power's response did not provide an account-by-account comparison of the test year with the previous year.

a. Provide the originally requested information in the analysis format indicated. The Kentucky jurisdictional amounts may be shown as 12-month totals rather than monthly. As clarification of the analysis format requested, see Kentucky Power's response to the Staff's First Request, Item 19, pages 3 through 5 of 5.

b. For each account shown in the response to part (a) above, where the change in the 12-month total company or Kentucky jurisdictional balances between the test year and the previous 12 months was greater than a positive or negative 10 percent <u>and</u> the dollar amount of the change exceeded $500,000, explain the reason(s) for the change in the account balances.

2. Refer to the response to the Staff's First Request, Item 23(a), pages 2 through 11 of 18. Kentucky Power was requested to provide a schedule showing a comparison of the balance in the total company and Kentucky jurisdictional operating expense accounts for each month of the test year to the same month of the preceding year for each account or subaccount included its chart of accounts. Kentucky Power was directed to provide this information in the manner shown in Format 19 of the Staff's First Request. Kentucky Power's response did not provide an account-by-account comparison of the test year with the previous year.

a. Provide the originally requested information in the analysis format indicated. As clarification of the analysis format requested, see Kentucky Power's response to the Staff's First Request, Item 19, pages 3 through 5 of 5.

b. For each account shown in the response to part (a) above, where the change in the 12-month total company balance between the test year and the previous 12 months was greater than a positive or negative 10 percent and the dollar amount of the change exceeded $500,000, explain the reason(s) for the change in the account balances.

3. Kentucky Power has filed this application using the historic test period approach, with a 12-month test period ending June 30, 2005. Kentucky Power has proposed adjustments for reliability, pool capacity, and transmission revenues and expenses based on information and events that are expected to occur in calendar year 2006 and beyond. Given that several of Kentucky Power's proposed adjustments are based on information and events that are expected to occur in calendar year 2006 and beyond, explain in detail how Kentucky Power's proposals in this case are consistent with the matching principle. Under the matching principle, all revenues, expenses, rate base, plant additions, and capital items are updated to the same period.

4. Provide a discussion of any event that occurred prior to the date that the rate application was filed if the event is anticipated to have a material effect on net operating income, rate base, or capital structure and is not already reflected in the rate application.

5. As members of PJM Interconnection, LLC ("PJM"), are Kentucky Power and its utility affiliates obligated to offer for sale all available energy that is not scheduled to meet their combined internal, native, or firm load requirements?

6. When Kentucky Power's system sales clause was initially established in the late 1980s, the profits from off-system sales in excess of a base level were split equally between ratepayers and shareholders to create an incentive for Kentucky Power to increase its level of off-system sales. Explain in detail how, as a member of PJM, Kentucky Power's future level of off-system sales could be impacted by the percentage of off-system sales profits allocated to shareholders.

7. Between June 1, 2004 and October 1, 2005, did Kentucky Power review any rate applications that had been filed with this Commission by other utilities? If yes, provide the case style and docket number of each rate application reviewed.

8. Between June 1, 2004 and October 1, 2005, did Kentucky Power review any Orders issued by this Commission in a case filed by another utility in which the subject of rates or rate adjustments was addressed? If yes, provide the case style and docket number of each Order reviewed.

9. Refer to the Application, Section II, Exhibit A, pages 56 through 105 of 352. The chart of accounts provided in these pages appears to be for American Electric Power, Inc. ("AEP"). Does a Kentucky Power-specific version of the chart of accounts exist? If yes, provide that chart of accounts.

10. Refer to the Application, Section II, Exhibit A, pages 340 and 341 of 352.

a. Provide a description of the following activity or service shown on page 340:

(1) Develop and Market Services for Unregulated Markets.

(2) Develop Wholesale Business.

(3) Develop / Deploy Information or Communication Systems.

(4) Plan and Improve the Business.

b. Describe the service or convenience provided by Appalachian Power Company to Kentucky Power during each of the periods shown on page 341.

11. Refer to the Application, Section IV, page 8 of 16. For each of the following accounts, describe the nature of the account, describe the type of transactions recorded in the account, and explain why these expenses are considered to be Operation and Maintenance ("O&M") expenses:

a. Factored Customer Accounts Receivable Expense.

b. Factored Customer Accounts Receivable Bad Debt.

12. Refer to the Application, Section IV, page 14 of 16. For each of the following accounts, describe the nature of the account and the type of transactions recorded in the account:

a. Prepayments – Management Fee – ALLTEL.

b. Prepayments – Carry Cost – Factored Accounts Receivable.

13. Refer to the Application, Section V, Schedule 4, page 1. Provide the supporting calculations, workpapers, and assumptions used to determine the "Base Case PSC Jurisdiction" Rate Base shown on lines 15 through 25.

14. Refer to the Application, Section V, Workpaper S-4, pages 1 through 41 of 41. Provide the calculations, workpapers, assumptions, and other supporting documentation used to determine the proposed adjustments described on these pages.

If the calculation, workpaper, assumption, or supporting documentation has already been supplied, provide the appropriate cross-reference to the record.

15. Refer to the Application, Section V, Workpaper S-4, page 9 of 41.

a. Recalculate the Net Merger Savings Adjustment using the format provided in Attachment B, page 1 of 3, of the Stipulation and Settlement Agreement approved by the Commission's June 14, 1999 Order in Case No. 1999-00149.[1]

b. Explain why the test year merger revenue credit on line 1 of Workpaper S-4, page 9 does not match the Year 5 Customer Net Savings shown on Attachment B, page 2 of 3, of the Stipulation and Settlement Agreement approved in Case No. 1999-00149.

16. Refer to the Application, Section V, Workpaper S-4, page 16 of 41.

a. Explain why Kentucky Power believes a 3-year historic average of storm damage expenses is reasonable for this adjustment.

b. Explain why Kentucky Power believes it is appropriate to use the Handy-Whitman Contract Labor Index to reflect the impact of inflation in this adjustment.

c. Was Kentucky Power aware that in rate cases during the past 10 years the Commission has adjusted storm damage expenses based on a 10-year historic average with an inflation factor based on the Consumer Price Index – All Urban Customers ("CPI-U")?

d. If yes to part (c) above, explain why Kentucky Power chose not to follow established Commission precedent for this adjustment.

[1] Case No. 1999-00149, Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation Regarding a Proposed Merger.

e. Recalculate the storm damages expense adjustment, using a 10-year historic average adjusted for inflation using the CPI-U. The inflation factor is determined by dividing the CPI-U for the base year[2] by the CPI-U for the particular year.

17. Refer to the Application, Section V, Workpaper S-4, page 19 of 41. Identify the account titles and account numbers where the total amount on line 5, "Booked AFUDC in Test Year," was recorded.

18. Refer to the Application, Section V, Workpaper S-4, page 31 of 41. Provide the vehicle fuel cost for each month of the test year and for each month subsequent to the test year that is available as of the date of this data request.

19. Refer to the Application, Section V, Workpaper S-4, page 38 of 41.

a. Explain why Kentucky Power believes a 3-year historic average of plant maintenance expense is reasonable.

b. Explain why Kentucky Power believes it is appropriate to use the Handy-Whitman Total Steam Production Plant Index to reflect the impact of inflation in this adjustment.

c. Would the CPI-U be a reasonable index to reflect the impact of inflation for this type of expense normalization? Explain the response.

d. Recalculate the Big Sandy plant maintenance normalization adjustment using a 9-year historic average of expenses and the Handy-Whitman Total Steam Production Plant Index to reflect the impact of inflation.

[2] The base year will be the 12 months ending June 30, 2005.

20. Refer to the Application, Section V, Workpaper S-7, page 1 of 5. Explain why it is necessary to assign Kentucky Power's administrative and general expenses to other O&M expense accounts.

21. Refer to the Application, Section V, Schedule 10. Explain the reference to "Separate Return" for the proposed federal and state income tax adjustment.

22. Refer to the Direct Testimony of Dennis W. Bethel ("Bethel Testimony"), pages 4 through 8 and the Application, Section V, Workpaper S-4, page 39 of 41.

a. The rates used by Mr. Bethel in the proposed adjustment for Point-to-Point ("PTP") revenues are based on an estimate of the PTP rates to be effective April 1, 2006. The estimated rates are 75 percent of the second step of a two-step increase proposed by AEP in its March 31, 2005 Federal Energy Regulatory Commission ("FERC") filing. What action has FERC taken on step one of the proposal, which was to become effective November 1, 2005?

b. In the event a decision in the FERC proceeding on the second step rate increase proposed by AEP has not been rendered prior to the conclusion of the evidentiary portion of this case, explain how Kentucky Power's proposed adjustment to reduce revenues by $9.6 million constitutes a known and measurable adjustment.

23. Refer to the Bethel Testimony, pages 8 and 9 and the Application, Section V, Workpaper S-4, page 33 of 41.

a. Lines 17 through 23 on page 8 of the testimony describe the calculation of the estimated Network Integrated Transmission Service ("NTS") revenues shown in the workpaper. Is it correct that the NTS revenues are based on estimates of both the NTS rate that Mr. Bethel expects will be effective April 1, 2006, and the Network Service Peak Load ("NSPL") that will be used in 2006?

b. At what point in time will either the actual NTS rate or actual NSPL that will be in effect after the end of the suspension period in this case be known?

24. Refer to the Bethel Testimony, pages 9 and 10. AEP has filed an appeal of the FERC decision to eliminate Through and Out ("T&O") transmission charges. FERC has also opened Docket No. EL05-121-000, in which AEP has filed a proposal to change the PJM transmission rate design. If AEP is successful in these matters, its incremental revenues would reduce its costs in the future. Given the uncertainty regarding both the outcome of these matters and the timing of that outcome, explain how Kentucky Power intends to protect its ratepayers from paying for costs that may be reduced if AEP succeeds.

25. Refer to the Bethel Testimony, page 10. Concerning the amortization of the PJM expansion expense, provide the monthly amortization expense for calendar year 2005 for Kentucky Power.

26. Refer to the Bethel Testimony, Exhibits DWB-1, DWB-2, and DWB-3.

a. Concerning Exhibit DWB-1, page 1 of 2, lines 1 through 10, provide the actual PTP revenue credits to AEP Zone for all months available after July 2005. In addition, provide a supplemental response to this request as soon as the actual PTP revenue credits to AEP Zone are available for the remainder of calendar year 2005.

b. Concerning Exhibit DWB-2, pages 1 and 2 of 2, provide the same information shown on this exhibit for the months of 2005 currently available. In addition, provide a supplemental response to this request as soon as the information is available for the remainder of calendar year 2005.

c. Concerning Exhibit DWB-3, pages 1 and 2 of 2, provide the same information shown on this exhibit for the months of 2005 currently available. In addition, provide a supplemental response to this request as soon as the information is available for the remainder of calendar year 2005.

27. Refer to the Direct Testimony of Robert W. Bradish ("Bradish Testimony") and RWB Exhibits 1 and 2. Kentucky Power's expense for "implicit" congestion costs for the 9 months ended June 30, 2005, was $4,597,608. The testimony states that the forecasted "implicit" congestion costs of $4,958,940 for 2006 are based on "an annualization of nine months of actual history ending June 30, 2005." The 2 exhibits do not reflect how this annualization was performed. Provide the supporting workpapers, including all assumptions and calculations, and a narrative explanation, which demonstrate how annualizing a 9-month expense of $4.6 million produces a 12-month amount of $4.96 million.

28. Refer to the Bradish Testimony, pages 7 through 9, and RWB Exhibits 1 and 2. Provide the supporting workpapers, including all assumptions and calculations, along with a narrative explanation, which show the derivation of the forecasted Financial Transmission Rights ("FTR") revenues of $7,961,292 for 2006.

29. Refer to the Bradish Testimony, pages 10 and 11, and RWB Exhibit 3. Provide the supporting workpapers, including all assumptions and calculations, along with a narrative explanation, showing the derivation of the forecasted net congestion costs of ($3,002,352) for Kentucky Power for 2006.

30. Refer to the Bradish Testimony, pages 10 through 12 and the Direct Testimony of David M. Roush ("Roush Testimony"), page 11, concerning the proposed cost recovery tracking mechanism for FTR revenues and "implicit" congestion costs.

a. Both witnesses refer to the tremendous volatility of these items and, based on that volatility, state that these items should not be included in base rates. Provide a thorough description of this volatility and a detailed explanation for why this degree of volatility occurs.

b. Page 12, lines 2 through 4, of the Bradish Testimony includes the proposal that, beginning in June 2007, the proposed tracking mechanism also include Auction Revenue Rights ("ARR"). Page 10 of the Bradish Testimony states that ARRs will take the place of FTRs beginning in June 2007. Based on this understanding, clarify whether the statement on lines 2 through 4 at page 12 of the testimony should state that "in June 2007, . . . ARR revenues be included in the mechanism <u>in place of FTR revenues.</u>" Explain the response.

31. Refer to the Bradish Testimony, pages 12 through 20 and RWB Exhibits 1, 3, and 4. The testimony indicates that the 2006 forecast amounts for operating reserves expenses, synchronous condensing service charges, reactive supply service charges, and blackstart service charges were all based on an annualization of 9 months of actual history for the period ending June 30, 2005. The exhibits do not reflect how this annualization was performed. Provide the supporting workpapers, including all assumptions and calculations, and narrative explanations, which demonstrate how annualizing the 9-month expenses for each of these items produces the 12-month amounts identified in the testimony.

32. Refer to the Bradish Testimony, pages 20 through 25, and RWB Exhibit 5. Provide the supporting workpapers, including all assumptions and calculations, along with a narrative explanation, showing the derivation of the forecasted PJM administrative fees of $3,529,848 for Kentucky Power for 2006.

33. Refer to the Bradish Testimony, RWB Exhibits 1 through 5. Provide versions of each exhibit showing the actual information for the months of 2005 currently available. Include all calculations, workpapers, and assumptions used to determine the 2005 actual amounts. In addition, provide a supplemental response to this request as soon as the information is available for the remainder of calendar year 2005.

34. Refer to the Direct Testimony of James E. Henderson ("Henderson Testimony"), pages 6 and 7.

a. The determination of the average service lives for the Production Plant did not use the same approach as was used for the Transmission, Distribution, and General Plant. Explain in detail why the same approach was not used for all types of utility plant.

b. Explain in detail why the probable demolition cost for the Big Sandy Plant was included in the depreciation rates proposed for the Production Plant.

c. Is the inclusion of probable demolition cost for a utility plant normally included in depreciation rates? Explain the response in detail.

35. Refer to the Henderson Testimony, Exhibit JEH-1, page iii. Mr. Henderson is recommending that Kentucky Power adopt and apply the depreciation accrual rates at the primary plant account level and the accumulated depreciation be established by the primary plant account as of a specific date. Kentucky Power

currently applies depreciation rates and maintains the accumulated depreciation by functional plant classification.

a. Explain why Kentucky Power has not used the primary plant account level prior to the filing of this case.

b. Provide the name of each operating company within the total AEP system, and indicate whether it follows the primary plant account level or functional plant classification.

c. To the extent Mr. Henderson knows, which approach is more commonly followed in the investor-owned electric industry today: primary plant account level or functional plant classification?

36. Refer to the Direct Testimony of Paul R. Moul ("Moul Testimony"), page 3, and Exhibit No. PRM-1, Schedule 3, page 2.

a. Provide the *Value Line Investment Survey* ("*Value Line*") pages for each of the companies in the electric proxy group ("Electric Group").

b. Several companies in the Electric Group – Ameren Corp., DTE Energy Co., Exelon Corp., MGE Energy Inc., Vectren Corp., WPS Resources, and Wisconsin Energy – have both gas and electric operations. Kentucky Power has no gas operations. Explain why it is appropriate to compare Kentucky Power to the Electric Group that contains combination companies.

c. WPS Resources' 2004 revenues, as reported in *Value Line,* show that only 17 percent were generated from electric operations. Provide the threshold that Kentucky Power used to determine which companies would be included in the Electric Group.

d. Exelon Corp., one of the companies in the Electric Group, is in the process of obtaining regulatory approval for and completing a merger with Public Service Enterprises. Explain why Exelon Corp. should be included in the Electric Group.

37. Refer to the Moul Testimony, page 5, lines 15 through 22. Provide a more detailed explanation of how increases in operating and capital costs due to the Clean Air Act ("CAA") create added risk for the company.

38. Was Mr. Moul aware at the time he prepared his testimony that Kentucky Power has an environmental surcharge that authorizes monthly recovery of CAA-related expenditures?

39. Explain why the presence of an environmental surcharge that authorizes the monthly recovery of CAA-related operations and capital costs does not eliminate any additional risk from increased CAA-related expenditures.

40. How many of the companies included in Mr. Moul's Electric Group have surcharges that authorize the monthly recovery of capital costs and operation and maintenance costs related to the CAA and other federal, state, and local environmental requirements that apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal?

41. The Moul Testimony, page 6, line 19, references "pressures from alternative providers." Provide the names of each alternative provider and the product that each is able to provide to Kentucky Power's industrial customers.

42. Refer to the Moul Testimony, page 8. AEP operates in the Eastern, Central and Southwestern states and is listed in *Value Line's* Electric Utility (Central)

Industry category. Explain why only companies operating in the Great Lakes region of the U.S. were selected for the Electric Group.

43. Refer to the Moul Testimony, pages 9 through 13. Explain the basis for using the nine categories of relative risk that Kentucky Power used to compare itself to the S&P Utilities and the proxy group.

44. Refer to the Moul Testimony, page 25, and Exhibit No. PRM-1, Schedule 7. Provide a detailed explanation of the derivation of the 5.5 percent growth rate.

45. Refer to the Moul Testimony, pages 25 and 26. Would it produce the same result to adjust the capitalization to reflect market capitalization rather than adjust the return? If no, explain why not.

46. Refer to the Moul Testimony, page 31. Explain how Kentucky Power benefited from the stock issuances described in the testimony.

47. Refer to the Moul Testimony, Exhibit No. PRM-1, Schedule 9, page 1 of 4.

a. While estimates below 8.0 percent have been eliminated from the sample, the highest observation, 13.75 percent, appears to be a remaining outlier in the sample. The next highest upper observation is 11.04 percent. Explain why it is reasonable to retain an obvious outlier from the calculations when low outliers have been eliminated.

b. The Discounted Cash Flow ("DCF") recommendation of 10.92 percent represents a weighted average of the two extreme points of the sample range, each with a 50 percent weight, with no regard for the distribution of the other sample points. Explain why it is reasonable to disregard the mean and median values using all the data points in the sample.

c. Refer to the Note 1 on page 1 of 4. Describe the nature of the debt instruments and provide the respective yields, and the dates the yields were calculated that were used as the basis for rejecting cost of equity returns below 8 percent.

48. Refer to the Moul Testimony, pages 32 and 33, and the “Source of Model” reference on Exhibit No. PRM-1, Schedule 9, page 1 of 4. Provide copies of the FERC opinions cited.

49. Refer to the Moul Testimony, Exhibit No. PRM-1, Schedule 9, page 2 of 4. Since financial theory assumes that current stock prices already reflect and embody all current knowledge available to the market, explain why a 6-month-old monthly high and low stock price would have any relevance to an investor.

50. Refer to the Moul Testimony, Exhibit No. PRM-1, Schedule 9, page 3 of 4.

a. In the “b times r” Growth Rate table, explain the derivation of the Growth column under Common Equity, and of the “b times r” Growth Rate column.

b. Explain why it is valid to use both average return on equity estimates and *Value Line* Return on Common Equity in the “b times r” Growth Rate table.

c. Explain the derivation of the Six-Month Average Stock Price column and the Growth of Common Shares Outstanding column, in the “s times v” Growth Rate table.

51. Refer to the Moul Testimony, page 34. Explain why it is appropriate to use AEP in the DCF analysis since Kentucky Power has already performed an analysis on a proxy group.

52. Refer to the Moul Testimony, page 34. Kentucky Power's DCF Return on Equity ("ROE") recommendation is based upon a DCF calculation using a proxy group of electric companies (50 percent weight) and upon a DCF calculation using AEP (50 percent weight). If Kentucky Power is to rely so heavily upon a single calculation of its own ROE, explain why it is necessary to use a proxy group at all and explain the basis for giving the proxy group's estimated ROE a 50 percent weight.

53. Refer to the Moul Testimony, page 35 and Appendix H of the Moul Testimony, page H-2.

a. Provide citations from well known and accepted public sources that recommend using corporate bond yields rather than the yields on long-term treasury bonds, as the starting point for the risk premium analysis.

b. Explain why it is valid to add the risk premium to corporate bond yields rather than to the yields on long-term government bonds.

c. Kentucky Power has filed a rate case for an adjustment to its electric rates. Explain why it is valid to use data that does not solely reflect the electric industry, as a proxy for Kentucky Power.

d. Explain why the yield on 20-year treasury bonds, as opposed to the yield on 30-year treasury bonds, is the most appropriate risk free rate to use.

54. Refer to the Moul Testimony, Appendices H and I, and Exhibit No. PRM-1, Schedule 11, page 2 of 2. Provide an explanation of why Kentucky Power argues that the arithmetic mean is the correct measure to use for estimating the risk premium, yet incorporates the geometric mean and other measures into its calculations.

55. Refer to the Moul Testimony, page 42. Kentucky Power unleverages, and then re-leverages, the betas in *Value Line*. Provide any sources that also advocate this technique for using *Value Line* betas.

56. Refer to the Moul Testimony, page 43. Explain why the market premium is developed by averaging historical and forecasted market performance.

57. Refer to the Direct Testimony of Everett G. Phillips ("Phillips Testimony"), page 2. Provide copies of the referenced "Focused Management Audit" report ("Audit Report").

58. Refer to the Phillips Testimony, page 5. Provide copies of all proposed revisions to North America Electric Reliability Council transmission and distribution vegetation management standards.

59. Refer to the Phillips Testimony, pages 6 and 7. Has Kentucky Power conducted an inventory of trees, tree growth, and tree mortality rates since the Audit Report was filed in March 2003? If so, provide copies of the inventory report.

60. Describe Kentucky Power's current procedures for distribution Right-of-Way ("ROW") maintenance and clearance and how that differs from a cycle-based approach.

61. Refer to the Phillips Testimony, page 8. If Kentucky Power were to receive the necessary financial resources as requested in its application, is it committing to adopting a cycle-based approach to vegetation management for its distribution and transmission line ROW throughout its Kentucky service territory? Explain the response.

62. Refer to the Phillips Testimony, page 10.

a. Explain this statement on line 11, “Capital dollars are used to widen the clear zone of existing rights-of-way.”

b. Refer to Table 2. Provide a detailed description of the investments identified as capital expenditures incurred in conjunction with the proposed vegetation management program.

c. Refer to Table 2. Provide a detailed explanation of the O&M expenses anticipated to be incurred in conjunction with the proposed vegetation management program.

63. Refer to the Phillips Testimony, page 17.

a. Explain in detail why Kentucky Power only measures the results of its current vegetation management programs through the use of quarterly customer satisfaction tracking studies.

b. Provide copies of the quarterly customer satisfaction tracking studies for calendar years 2002, 2003, 2004, and the available quarterly studies for 2005.

64. Refer to the Phillips Testimony, page 19. Mr. Phillips makes the statement that, “It is important for KPCo and our customers that the Commission approve recovery of the expenditures associated with KPCo’s proposal to place its T&D system on a cycle-based vegetation management program to enable us to continue our work to maintain and improve transmission and distribution system reliability.” Explain in detail why Mr. Phillips believes it is reasonable to require ratepayers to pay for the projected O&M expenses and a return on the projected capital expenditures associated

with this proposed program prior to Kentucky Power expending any funds for the program.

65. Attachment C of the Stipulation and Settlement Agreement approved in Case No. 1999-00149 addresses AEP's and Kentucky Power's service quality commitments.

a. Is Mr. Phillips familiar with the commitments made by Kentucky Power in Case No. 1999-00149? Explain the response.

b. Explain why Kentucky Power does not measure the results of its current vegetation management programs using the System Average Interruption Frequency Index ("SAIFI") and the Customer Average Interruption Duration Index ("CAIDI").

c. Provide Kentucky Power's annual SAIFI and CAIDI values, including all storms, for years 1999 through 2005.

d. Using the SAIFI and CAIDI values provided in part (c), prepare an analysis for each interruption index that shows the percentage change between each year. For any annual change that is greater than a positive or negative 15 percent, explain the reason(s) for the change.

66. Refer to the Roush Testimony, pages 4 and 5, and the Application, Section V, Workpaper S-4, page 24 of 41.

a. Provide the supporting workpapers, including all assumptions and calculations, along with a narrative explanation, showing the derivation of the electric revenues of $195,124 shown on the workpaper.

b. Provide the supporting workpapers, including all assumptions and calculations, along with a narrative explanation, showing the derivation of the 72.85 percent ratio of operating and maintenance expenses to revenues for the test year.

67. Refer to the Roush Testimony, pages 6 through 8, and the Application, Section III, page 34 of 373. Nearly all of the regulated electric utilities in Kentucky have rate designs that include flat, or level, energy rates for their residential customer class. Kentucky Power is proposing to maintain its current declining block rate structure.

a. Explain whether a declining block residential rate structure encourages or discourages energy consumption, particularly during times of system peak usage.

b. Does Kentucky Power have any study or analysis that supports its continued use of declining block residential rates?

c. Describe Kentucky Power's consideration of converting its residential rate schedule to flat, or level, energy rates.

68. Refer to the Roush Testimony, pages 11 and 12, and the Direct Testimony of Errol K. Wagner ("Wagner Testimony"), Exhibit EKW-5, page 103 of 103, regarding the proposed net congestion recovery tariff.

a. Mr. Roush refers to the volatility in congestion costs as the reason such a tariff is being requested. If volatility is such a cause for concern, explain why the tariff is proposed to be adjusted annually rather than monthly as are items such as the fuel adjustment charge and environmental surcharge.

b. The proposed tariff defines the current period as the 12 months ended September 30 of each year. Describe the process, and the timing thereof, that

Kentucky Power envisions for requesting and implementing the annual adjustment to the proposed Net Congestion Recovery Factor.

69. Refer to the Wagner Testimony, page 8. Provide the monthly Member Load Ratio for Kentucky Power from July 2002 through the month currently available.

70. Refer to the Wagner Testimony, page 14, and the Application, Section V, Workpaper S-2, page 3 of 3.

a. Explain why it is reasonable to use a 3-year average of the percentage of "Accounts – Net Charged Off" instead of the test year actual percentage.

b. Do the "Accounts – Net Charged Off" reflect Kentucky jurisdictional customer accounts receivable charge offs or other accounts receivable? Explain the response.

c. Describe Kentucky Power's accounts receivable financing program. Include in the description all charges and costs associated with the program and explain how program charges and costs are recorded on Kentucky Power's books.

d. Provide an analysis of Kentucky Power's accounts receivable. The analysis should cover each month in the period from July 2003 through June 2005. This analysis should include the following items:

(1) The total accounts receivable.

(2) The total Kentucky jurisdictional customer accounts receivable.

(3) The total other accounts receivable.

(4) The total accounts receivable sold.

(5) The total Kentucky jurisdictional customer accounts receivable sold.

(6) The total other accounts receivable sold.

(7) The total uncollectible accounts.

(8) The total Kentucky jurisdictional uncollectible accounts.

(9) The total other uncollectible accounts.

71. Refer to the Wagner Testimony, pages 14 and 15.

a. Indicate how long Kentucky Power has been paying the Ohio state franchise tax and the West Virginia state income tax.

b. Provide documentation that shows the Ohio tax rate to be 8.50 percent and the West Virginia tax rate to be 9.00 percent.

c. Provide all calculations, workpapers, and assumptions used to determine the apportionment factors for the Ohio and West Virginia taxes.

d. Explain in detail why Kentucky Power believes the Ohio and West Virginia taxes should be reflected in the gross revenue conversion factor. Include with this explanation a discussion of why including the Ohio and West Virginia taxes as test-year expenses does not provide sufficient cost recovery for Kentucky Power.

72. Refer to the Wagner Testimony, pages 16 and 17.

a. Explain in detail why it is appropriate to revise the calculation of the environmental surcharge gross revenue conversion factor in a base rate case.

b. Does Kentucky Power advocate that the return on capital for its environmental surcharge should be revised to match the return on capital authorized in this base rate case? Explain the response.

73. Refer to the Wagner Testimony, page 19. Describe the current and future status of Kentucky Power's wholesale electric service to the cities of Vanceburg and Olive Hill.

74. Refer to the Wagner Testimony, pages 24 and 25.

a. Did Kentucky Power have excess deferred income taxes as a result of recognizing the change in the Kentucky corporate income tax rate? Explain the response.

b. If excess Kentucky deferred income taxes did result, provide the amount of protected and unprotected excess Kentucky deferred income taxes. Include all calculations, workpapers, and assumptions used to determine the amounts.

75. Refer to the Wagner Testimony, page 27.

a. Explain why Kentucky Power believes it is necessary to adjust the coal inventory to the 35-day target level.

b. Explain why Kentucky Power's coal inventory was below the target level at test-year end.

c. Describe the actions Kentucky Power has undertaken to get its coal inventory up to the 35-day target level. Include with this description an estimation of how long it will take to return to the target level.

76. Refer to the Wagner Testimony, page 33. Explain why employee overtime has been included in the rate case expense adjustment.

77. Refer to the Wagner Testimony, pages 35 through 37, and the Application, Section V, Workpaper S-4, page 26 of 41.

a. Provide Kentucky Power's monthly system sales profit for each of the calendar years 2000 through 2004.

b. A comparison of the monthly system sales profit amounts on the tariff sheet Exhibit EKW-5 and the amounts on page 26 of the workpaper indicates that the amounts on the tariff sheet are consistently larger for every month of the year. Explain how this result occurs.

78. Refer to the Wagner Testimony, pages 37 and 38, and the Application, Section V, Workpaper S-4, page 27 of 41. Provide the supporting workpapers, including all assumptions and calculations, along with a detailed narrative explanation, which support the proposed deferred tax adjustment of ($412,901) associated with the proposed fuel cost adjustment.

79. Refer to the Wagner Testimony, page 38, the transmission and distribution reliability adjustment.

a. Explain the difference between the associated capital expenditure and the additional capital investment related to this adjustment.

b. Explain what documentation has been provided that demonstrates that Kentucky Power will actually incur the O&M expenses and make the capital expenditures and investments identified in this proposal.

80. Refer to the Wagner Testimony, page 39, lines 10 through 18.

a. Provide the actual or expected dates of the listed additions and retirements of generating capacity.

b. Describe the “known load changes during the test year and shortly thereafter.” Indicate when any post-test-year load changes included in this adjustment actually occurred.

81. Refer to the Wagner Testimony, page 41, concerning the pension prepayment adjustment.

a. Provide documentation verifying that the extra pension payments are not reflecting in Kentucky Power’s test-year O&M expenses.

b. Explain how the proposed pension prepayment account will be written off over time.

c. Explain why Kentucky Power should be allowed to earn a return on this pension payment.

d. As of test-year end, what is the status of Kentucky Power’s qualified pension plan?

82. Refer to the Wagner Testimony, pages 54 and 55, and Exhibit EKW-5, pages 98 through 102 of 103.

a. Provide the calculation of the Base Period Revenue Requirement (“BRR”) that reflects the rate base for Kentucky Power and Rockport as of June 30, 2005 and the operating expenses as of June 30, 2005. Use Form 2.00 through Form 2.21 from the monthly environmental surcharge reporting formats to show the calculation, and include any additional calculations, workpapers, or assumptions needed to determine the BRR.

b. Explain why Kentucky Power is proposing to include the "Monthly Environmental Base Costs" ("MEBC") component as a subtraction from the Current Period Revenue Requirement ("CRR") instead of adding the MEBC to the BRR.

c. Explain why Kentucky Power believes it is reasonable for the MEBC component to fluctuate each billing month rather than using a monthly average amount based on the 12-month total.

83. Refer to the Application, the Depreciation Study – Study Workpapers. Provide an explanation of how Mr. Henderson determined the gross removal and gross salvage rates for all plant accounts. Include in the explanation a discussion of how the provided study workpapers support the values for gross removal and gross salvage.

84. Refer to the Application, the Depreciation Study – Study Workpapers, page 2 of 443. Given the difference in the expected retirement dates for the Big Sandy generating units, was the estimated demolition cost of $32,000,000 allocated to the two units and spread over the appropriate remaining lives of the units? Explain the response.

85. Refer to the Application, the Depreciation Study – Study Workpapers. For each of the plant accounts listed below, provide the reason(s) for the change in the net salvage percentage between the current and recommended levels.

a. Account 354 – Towers and Fixtures, page 89 of 443.

b. Account 355 – Poles and Fixtures, page 94 of 443.

c. Account 356 – Overhead Conductor and Devices, page 99 of 443.

d. Account 362 – Station Equipment, page 176 of 443.

e. Account 364 – Poles, Towers and Fixtures, page 191 of 443.

f. Account 367 – Underground Conductor and Devices, page 206 of 443.

g. Account 369 – Services, page 216 of 443.

h. Account 370 – Meters, page 221 of 443.

i. Account 371 – Installations on Customers Premises, page 226 of 443.

j. Account 373 – Street Lighting and Signal Systems, page 231 of 443.

86. Refer to the response to the Staff's First Request, Item 9, page 16 of 114. Provide an updated version of this schedule including the most recent monthly information. In addition, calculate the 13-month average at the end of each 13-month period beginning with July 2003.

87. Refer to the response to the Staff's First Request, Item 12, page 2 of 19. Indicate when Kentucky Power performed its last jurisdictional cost allocation study prior to the one used in this case.

88. Refer to the response to the Staff's First Request, Item 19, pages 3 through 5 of 5. For each of the accounts listed below, provide the reason(s) for the change in the account balances between the test year and prior year.

a. Account No. 311, Structures and Improvements, page 3 of 5.

b. Account No. 312, Boiler Plant Equipment, page 3 of 5.

c. Account No. 355, Poles and Fixtures, page 3 of 5.

d. Account No. 365, Overhead Conductors and Devices, page 4 of 5.

e. Account No. 367, Underground Conductors and Devices, page 4 of 5.

f. Account No. 371, Installations on Customer Premises, page 4 of 5.

g. Account No. 389, Land and Land Rights, page 5 of 5.

h. Account No. 394, Tools, Shop and Garage Equipment, page 5 of 5.

89. Refer to the response to the Staff's First Request, Item 23(b), page 16 of 18. Explain why the total operating expenses for calendar year 2001 were so significantly higher than any other year shown in the response.

90. Refer to the response to the Staff's First Request, Item 23(c), page 17 of 18, lines 1 through 9.

a. Explain in detail why the Kentucky jurisdictional amounts for the test year are higher than the total company amounts.

b. Explain why there are no Kentucky jurisdictional administrative and general salaries and wages.

91. Refer to the response to the Staff's First Request, Items 24(a) and 24(b), pages 2 and 3 of 4.

a. For each of the job classifications or categories listed below, explain the reason(s) for the level of overtime hours reported for the test year.

(1) Coal Equipment Operator – Senior, page 2 of 4.

(2) Control Technician – Senior, page 2 of 4.

(3) Driver – Ground Worker, page 2 of 4.

(4) Line Crew Supervisor – NE, page 2 of 4.

(5) Line Mechanic – A, page 2 of 4.

(6) Line Servicer, page 2 of 4.

(7) Production Services Leader, page 3 of 4.

(8) Unit Operator, page 3 of 4.

b. Has any review or analysis been performed of Kentucky Power's overtime hours recorded for the test year? If so, provide the results of the review or analysis.

92. Refer to the response to the Staff's First Request, Items 26(a)(6)(1) through 26(a)(6)(4), page 2 of 8. In these responses Kentucky Power states that, per Commission precedent, deferred state income taxes are not recorded for certain items in the cost of service. Explain the response and provide citations to the "Commission precedent" noted.

93. Refer to the response to the Staff's First Request, Item 30(a).

a. Explain why advertising expenses were recorded in Account Nos. 500 and 506.

b. Provide a schedule of the advertising expenses recorded in Account Nos. 921 and 930. The schedule should include a voucher or journal reference, the accounting date, a vendor name, the amount of the transaction, a brief description of the transaction, and an identification of the transaction as either "institutional," "education," or "safety." The description of the transaction must be something more descriptive than simply "advertising."

94. Refer to the response to the Staff's First Request, Item 30(b), page 5 of 23.

a. Concerning the Edison Electric Institute ("EEI"), provide the current percentage of its total expenses for the following categories: legislative advocacy; legislative policy research; regulatory advocacy; regulatory policy research; advertising; marketing; utility operations and engineering; finance, legal, planning and customer service; and public relations.

b. Provide the EEI definitions or descriptions of the expense categories listed in part (a) above.

c. For each of the following organizations, describe the purpose or function of the organization. In addition, explain why the dues for these organizations should be included for rate-making purposes.

(1) Southeastern Electric Exchange.

(2) Southern Growth Policies Board.

(3) Southern States Energy Board.

95. Refer to the response to the Staff's First Request, Item 30(b), page 6 of 23. For each of the advertising transactions listed below, provide a copy of the advertisement or a copy of the text covered by the transaction.

a. Voucher No. 00103692 – Kentucky Press Service, Inc.

b. Voucher No. 00697601 – Marketing Services by Vectra.

c. Voucher No. 00628390 – Marketing Services by Vectra.

d. Voucher No. 00645405 – National Yellow Pages Media LLC.

e. Voucher No. 00102258 – WYMT-TV.

f. Journal ID INTCOM5794.

96. Refer to the response to the Staff's First Request, Item 30(b), page 7 of 23. Explain why the expenses associated with sponsorships and contributions should be included for rate-making purposes.

97. Refer to the response to the Staff's First Request, Item 30(b), pages 8 through 13 of 23.

a. Describe the group of expenses identified as "Associated Business Development."

b. For each of the entities listed below, describe the goods or services provided during the test year.

(1) Alumilite, Inc., page 8 of 23.

(2) Cooper Power Systems, page 8 of 23.

(3) Eagle Electrical Contractors LLC, page 8 of 23.

(4) Elliott Contracting, Inc., pages 8 and 9 of 23.

(5) Elliott Supply and Glass, Inc., page 9 of 23.

(6) Howard industries, Inc., page 9 of 23.

(7) New River Electrical Corp., pages 9 and 10 of 23.

(8) Premier Products, Inc., page 10 of 23.

(9) State Electric Supply, Co., page 10 of 23.

(10) Journal ID AJERECLASS, page 10 of 23.

(11) Journal ID INDUS96639, page 11 of 23.

(12) Journal ID INTCOM0481, page 11 of 23.

(13) Journal ID INTCOM7869, page 11 of 23.

(14) Journal ID OAAABD, page 11 of 23.

98. Refer to the response to the Staff's First Request, Item 31, page 3 of 17. Provide a description of the services supplied by the AEP Service Corporation ("AEPSC") during the test year and recorded in the following accounts:

a. Account 1070, Construction Work in Progress – Electric.

b. Account 1520, Fuel Stock Expense Undistributed.

c. Account 1630, Stores Expense Undistributed.

d. Account 1880, Research, Development, and Demonstration Expenditures.

e. Operation Expense Accounts 5000; 5800; 5880; 9030; 9200; and 9230.

f. Maintenance Expense Accounts 5100 and 5120.

99. Refer to the response to the Staff's First Request, Item 31, pages 4 through 17 of 17. For each of the vendors listed below, provide a description of the services provided to Kentucky Power and indicate whether Kentucky Power expects to continue needing these services on a going-forward basis.

a. Deloitte and Touche LLP, page 4 of 17.

b. FMSM Engineers, page 4 of 17.

c. Sun Technical Services, Inc., pages 4 through 11 of 17.

d. Parsons E & C, pages 11 and 12 of 17.

e. Combs and Combs PSC, page 12 of 17.

f. Gray Woods & Cooper, pages 12 and 13 of 17.

g. Huddleston Bolen LLP, page 13 of 17.

h. Russell R. Johnson III, page 13 of 17.

i. Kinner and Patton, page 13 of 17.

j. Steptoe and Johnson LLP, page 13 of 17.

k. Stites and Harbison, pages 13 and 14 of 17.

l. REV1 Power Services Inc., page 14 of 17.

m. Systems Control, page 14 of 17.

n. Wackenhut Corp., pages 14 and 15 of 17.

o. Dewayne Rutherford, page 16 of 17.

p. Area Land Surveys, page 16 of 17.

100. Refer to the response to the Staff's First Request, Item 32, page 2 of 2. Does Kentucky Power agree that the charitable contributions recorded in accounts other than Account No. 426 should be excluded for rate-making purposes? Explain the response.

101. Refer to the response to the Staff's First Request, Item 37, page 2 of 2. Identify the account where the property taxes related to non-utility property were recorded. Does Kentucky Power agree that these taxes should be excluded for rate-making purposes? Explain the response.

102. Refer to the response to the Staff's First Request, Item 40. For each allocation factor listed in the jurisdictional plant and expense allocation study, as provided in the Application, Section V, Schedules 5 through 19, define the factor, explain how the factor is calculated, and describe the transactions to which the factor is normally applied.

103. Refer to the response to the Staff's First Request, Item 42, pages 3 through 5 of 9. Provide a transaction summary of the expenses billed to Kentucky

Power by AEPSC for each of the accounts listed below. The transaction summary should contain a description of the expenses being billed by AEPSC.

a. Account No. 5000000 – Operation, Supervision, and Engineering, page 3 of 9.

b. Account No. 5120000 – Maintenance of Boiler Plant, page 3 of 9.

c. Account No. 9030001 – Customer Orders and Inquiries, page 4 of 9.

d. Account No. 9200000 – Administrative and General Salaries, page 4 of 9.

e. Account No. 9230003 – AEPSC Shard Service Billing, page 4 of 9.

104. Refer to the response to the Staff's First Request, Item 46, page 21 of 27. Explain the purpose of Work Order No. RDCP200301, titled "R&D Program Development." Include in the explanation a discussion of why this expense should be included for rate-making purposes.

105. Refer to the response to the Staff's First Request, Item 50, pages 47 through 51 of 139.

a. Based upon the actuarial valuation report, would it be a correct interpretation of the information that Kentucky Power's pension costs are expected to decrease in 2006 when compared to the 2005 levels?

b. If yes to part (a), has Kentucky Power proposed an adjustment to its test-year expenses to recognize this reduction? Explain the response.

106. Refer to the response to the Staff's First Request, Item 51, pages 50 and 51 of 60.

a. Based upon the actuarial valuation report, would it be a correct interpretation of the information that Kentucky Power's post-retirement, non-union benefits costs are expected to decrease in 2006 when compared to the 2005 levels?

b. If yes to part (a), has Kentucky Power proposed an adjustment to its test-year expenses to recognize this reduction? Explain the response.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED November 10, 2005

cc: All Parties