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

THIRD 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 December 22, 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 Second Data Request dated November 10, 2005 ("Staff's Second Request"), Item 1, pages 11 and 15 of 19.

Describe what is meant by the phrase “spark gas activity” and explain the role this activity plays in Kentucky Power’s generation of electricity.

2. Refer to the response to the Staff’s Second Request, Item 2.

a. The explanation for the change in Account No. 4101001 – Provision for Deferred Income Taxes, Utility Operating Income - Federal, shown on page 20 of 33, states that the recording of taxes was changed from a “gross method” to a “net method.” Explain the differences in these recording methods and provide the reason(s) for changing methods.

b. The explanation for the change in Account No. 5010005 – Fuel – Deferred, shown on page 21 of 33, states “Since the cost per ton of coal increased approximately 42% from the previous period to the test period, and the rate being recovered did not increase, a significantly higher amount of fuel expense was deferred to be recovered at a future date.”

(1) Provide a detailed explanation of the nature and purpose of Account No. 5010005.

(2) Given that Kentucky Power has a fuel adjustment clause (“FAC”), explain in detail why it is not able to recover its full fuel expense through its FAC.

(3) Provide copies of the document authorizing the deferral of fuel expense by Kentucky Power.

c. Identify the portion of the test year and prior year balances in Account No. 9220001 – Outside Services Employed – Non-associated, shown on page 29 of 33, related to Kentucky Power’s Sarbanes Oxley audits.

3. Refer to the response to the Staff's Second Request, Item 3. The match of the revenue and expense items provided in this response reflects only a limited application of the matching principle. As referenced in the request, the matching principle means that <u>all</u> revenues, <u>all</u> expenses, <u>all</u> components of rate base, <u>all</u> plant additions, and <u>all</u> capital items are updated to the same period. With this clarification, explain in detail how Kentucky Power's proposals in this case are consistent with the matching principle.

4. Refer to the response to the Staff's Second Request, Item 10(a). For each of the activities listed below, explain why the expense associated with the activity should be included for rate-making purposes.

a. Activity No. 35 – Market/Sell Unregulated Products and Services, page 1 of 13.

b. Activity No. 622 – Market Trans/Ancil Service, page 2 of 13.

c. Activity No. 625 – Perform Unregulated Energy Trading Activities, page 3 of 13.

d. Activity No. 626 – Conduct Unregulated Business Development, page 3 of 13.

e. Activity No. 698 – Perform Regulated Energy Trading Activities, page 3 of 13.

f. Activity No. 266 – Evaluate Investment/Diversification Opportunities, page 10 of 13.

5. Refer to the response to the Staff's Second Request, Item 10(b). Provide a schedule of "convenience payments" Kentucky Power made to Appalachian Power

Company during the test year. The schedule should show the types of expenses (such as legal matters), the test-year total for the type of expense, and a description of the activities or services included in the type of expense.

6. Refer to the Staff's Second Request, Item 13. Provide documentation supporting the following items:

a. The number of bills, notices, and letters mailed in the test year shown on page 11 of 36.

b. The June 2005 premiums or costs for all employee benefit plan costs shown on page 14 of 36.

c. The June 2005 monthly lease costs shown on page 20 of 36.

d. The actual net line of credit fee shown on page 24 of 36.

e. The vehicle fuel cost for June 2005 shown on page 30 of 36.

f. The March and June 2005 contributions to pension funding shown on page 35 of 36.

7. Refer to the response to the Staff's Second Request, Item 14. Does Kentucky Power contend that its testimony and exhibits contain all the calculations, workpapers, assumptions, and other supporting documentation that were used to determine the proposed adjustments described in the Application, Section V, Workpaper S-4, pages 1 through 41 of 41? If there are calculations, workpapers, assumptions, or other supporting documentation that were used to determine the proposed adjustments that are not contained in Kentucky Power's testimony and exhibits, provide that information.

8. Refer to the response to the Staff's Second Request, Item 16.

a. Concerning the response to Item 16(b), is there a Handy-Whitman index available for electric utilities only or does the index reflect the blending of results for the electric, gas, and water utilities?

b. If the index reflects the blended results for the three industries, explain why Kentucky Power believes it to be more reasonable than the Consumer Price Index – All Urban Customers ("CPI-U").

c. Concerning the response to Item 16(c) and the response to the Staff's Second Request, Item 8, explain why Kentucky Power was not aware the Commission has adjusted storm damage expenses using a 10-year historic average with an inflation factor based on the CPI-U.

d. Would Kentucky Power agree that it is more reasonable to base the storm damage expense adjustment on 9 years of experience rather than 3 years? Explain the response.

e. What time period did the Commission use to determine the storm damage expense adjustment approved in Case No. 9061?[1] Explain the response.

9. Refer to the response to the Staff's Second Request, Item 19.

a. Does the Handy-Whitman Total Steam Production Plant Index reflect only information from the electric industry? Explain the response.

b. Would Kentucky Power agree that it is more reasonable to base the plant maintenance expense adjustment on 9 years of experience rather than 3 years? Explain the response.

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

c. Did the Commission accept or reject the use of a “levelized” plant maintenance expense adjustment in Case No. 9061? Explain the response.

10. Refer to the response to the Staff’s Second Request, Item 22. The response indicates that “Kentucky Power anticipates that the FERC will act on the Settlement Agreement prior to the conclusion of the evidentiary portion of this case.” Consider this an ongoing request. At the time Kentucky Power provides its monthly updated response to the Staff’s Second Request, Item 26, also provide a summary of the most recent activity in Federal Energy Regulatory Commission (“FERC”) Docket No. ER05-751-000.

11. Refer to the response to the Staff’s Second Request, Item 24. The response indicates that, if American Electric Power (“AEP”) is successful in proceedings regarding the elimination of Through and Out charges and proposed changes to the PJM Interconnection, LLC (“PJM”) transmission rate design, the additional revenue that Kentucky Power would receive would be reflected as a credit to the cost of service in a future rate case. Given that Kentucky Power has gone nearly 15 years between rate cases, there is the potential that the outcomes in those proceedings may be known for a significant period of time prior to a future Kentucky Power rate case. Explain how the approach described in the response will “provide ratepayers with adequate future protection.”

12. Refer to the response to the Attorney General’s First Data Request dated November 9, 2005 (“AG’s First Request”), Item 64. Identify the remaining work that must be completed before the Wyoming – Jackson Ferry 765 kV transmission line can become operational in June of 2006.

13. Refer to the response to the AG's First Request, Item 71(e). Consider this another ongoing request. Provide, on a monthly basis, a summary of the most recent activity in the FERC docket involving PJM's proposed rate that was filed with FERC on July 1, 2005.

14. Refer to the response to the Staff's Second Request, Item 34.

a. Prepare a schedule comparing the assumptions and estimated demolition costs for the Big Sandy Plant included in Case No. 1991-00066[2] with the assumptions and estimated demolition costs included in the current depreciation study.

b. Explain the reason(s) for any changes in the assumptions between the two depreciation studies.

c. Explain the reason(s) for any changes in the estimated demolition costs between the two studies that are greater than a positive or negative 10 percent.

15. Refer to the response to the Staff's Second Request, Item 36.

a. Of the companies included in the electric proxy group, Ameren, DTE Energy, Exelon Corp., FirstEnergy, Wisconsin Energy, and WPS Resources operate nuclear electric generators. Kentucky Power has no nuclear facilities and, therefore, does not experience any of the risks or expenses associated with such operations. Explain why these companies should be considered appropriate comparisons to Kentucky Power.

b. Of the companies included in the electric proxy group, DTE Energy obtains 26 percent of its operating revenues from non-utility operations, FirstEnergy

[2] Case No. 1991-00066, Application for Adjustment of Electric Rates of Kentucky Power Company, final Order dated October 28, 1991.

obtains 37 percent from non-utility sources, Vectren Corp. obtains 25 percent, and WPS Resources obtains 73 percent. Kentucky Power does not obtain such large percentages of its revenues from non-utility sources. Explain why these companies should be considered appropriate comparisons to Kentucky Power.

c. Kentucky Power receives nearly 100 percent of its revenues from electric operations. Explain why Vectren Corp., with 23 percent of its revenue from electric utility operations, and WPS Resources, with 17 percent of its revenue from electric operations, are appropriate proxies for Kentucky Power.

d. Two proxy companies, Vectren Corp. and WPS Resources, obtain 23 and 17 percent, respectively, of their operating income from electric utility operations. NiSource, which was not included in the proxy group, derives around 73 percent of its operating income from regulated electric operations. Explain why NiSource, which appears to obtain a greater portion of its revenues from electric operations than either Vectren Corp. or WPS Resources, should not qualify as a comparison company for Kentucky Power.

16. Refer to the response to the Staff's Second Request, Item 42. Kentucky Power states that it uses companies operating in the Great Lakes region because companies outside this region are geographically remote from Kentucky Power. Kentucky Power goes on to quote the geographic criteria specified in the Bluefield case in support of this selection criteria.

a. Provide a detailed description of why electric utilities operating in Wisconsin and Michigan provide enough geographical similarity to Kentucky Power to be appropriate comparison companies.

b. Provide a detailed list of the electric supply fundamentals of each company in the proxy group and an explanation of what makes them distinctly similar to Kentucky Power.

c. Provide a detailed list of the electric supply fundamentals of the electric utilities in states adjacent to Kentucky and an explanation of what makes them distinctly dissimilar to Kentucky Power.

17. Refer to the response to the Staff's Second Request, Item 43. Kentucky Power is a regulated utility and the subject of this rate case. It does not engage in all of the business ventures and, therefore, is not exposed to all of the business risks of AEP, the parent holding company. Explain how using AEP as a substitute for Kentucky Power is a valid procedure when making risk comparisons between the electric proxy group and Kentucky Power, the subject of this rate case.

18. Refer to page 12 of the Direct Testimony of Paul R. Moul ("Moul Testimony"). Is Mr. Moul stating that Kentucky Power will be spending $1 billion for a 600 MW Integrated Gasification Combined Cycle generating plant in Kentucky? If yes, provide documentation that demonstrates Kentucky Power will be constructing this plant in the state.

19. Refer to response to the Staff's Second Request, Item 44. The range of forecasted average Earnings Per Share ("EPS") for the electric group between the various ratings agencies extends from 4.51 percent from IBES/First Call to 5.63 percent for Value Line. Explain how Mr. Moul derived 5.5 percent as the growth rate for his DCF calculations.

20. Refer to the response to the Staff's Second Request, Item 44 and the Moul Testimony, Exhibit No. PRM-1 Schedule 7. Provide a table with the projected EPS data used to construct Schedule 7 for each company from IBES/First Call, Zacks, Reuters/Market Guide, and Value Line.

21. Refer to the response to the Staff's Second Request, Item 47(a). Given the distribution of the data points in the sample, explain why 13.75 percent should not be considered an outlier and eliminated from consideration.

22. Refer to the response to the Staff's Second Request, Item 47(b). Mr. Moul states that he has adopted the FERC model as his own. Mr. Moul utilized two methods for calculating Discounted Cash Flow ("DCF") input values to obtain individual company Return on Equity ("ROE") estimates. He then selected extreme company ROE estimates between the methods, after truncating the sample, in order to arrive at a reduced sample. The ROE recommended by Mr. Moul is an average of the extreme high and extreme low data points in the reduced sample. From the reduced sample, his recommended ROE is not close to either the average or the median values.

a. Mr. Moul's procedure does not blend results of using different procedures to obtain DCF inputs until the final step. The various DCF results from the two methods are then used to search for the most extreme values, which are then placed in a reduced sample. Explain why it is not better to blend the ROE estimates from the two methods of estimating ROE in recognition that different methods for obtaining the DCF inputs will produce slightly different results.

b. It appears that using Mr. Moul's DCF procedure for calculating ROE ignores all but two companies in the proxy group. Mr. Moul's ultimate proxy group appears to only consist of two companies, those that produce the most extreme ROE estimates. Explain why it is valid to use a proxy group that effectively consists of only two companies.

23. Refer to the response to the Staff's Second Request, Item 50(a) and the Moul Testimony, Exhibit No. PRM-1 Schedule 9, page 3 of 4. In the "b times r" Growth Rate table, explain the derivation of the Growth column under Common Equity.

24. Refer to the response to the Staff's Second Request, Item 46. Mr. Moul states that a flotation cost provision must be made in the cost-of-equity calculation, unless otherwise provided in the cost-of-service-study. Explain how flotation cost would be presented in a cost-of-service-study.

25. Refer to the response to the Staff's Second Request, Item 54 and the Moul Testimony, Exhibit No. PRM-1 Schedule 11.

a. Mr. Moul obtained his measure of risk premium by subtracting the geometric means, the arithmetic means, and the median values for the Public Utility B Series Bonds from the S&P Public Utility Index series. The "risk premiums" for the geometric mean and the median values were averaged together and then that average was averaged with the arithmetic mean "risk premium" to obtain his risk premium for investing in utility stocks over utility bonds. Explain how this process provides an accurate picture of the risk premium required to invest in utility stocks over utility bonds over time.

b. Explain how the median values of the series provide a meaningful measure of risk premium.

26. Refer to the response to the Staff's Second Request, Item 58. The response states that Draft No. 3 of the North America Electric Reliability Council's ("NERC") proposed standards on the Transmission Vegetation Management Program was posted for ballot through November 16, 2005. Provide the result of that ballot.

27. Refer to the response to the Staff's Second Request, Item 59. Explain in detail why Kentucky Power has not conducted an inventory of trees, tree growth, and tree mortality rates.

28. Refer to the response to the Staff's Second Request, Item 61. Explain why Kentucky Power will not commit to establishing a cycle-based approach to transmission vegetation management, even if that approach needs to be revised as a result of standards adopted by NERC.

29. Refer to the response to the Staff's Second Request, Item 62.

a. Concerning the responses to Items 62(a) and 62(b), provide a more detailed explanation and list the exact items (e.g., additional chain saws and other tree trimming equipment, new trucks, radios, etc.) that would be capitalized that Kentucky Power envisions as being necessary.

b. Explain in detail why Kentucky Power believes the removal of trees previously trimmed should be a capitalized cost.

c. Concerning the response to Item 62(c), provide a more detailed explanation and list the operation and maintenance expenses that are envisioned under the new trimming cycle regime.

30. Refer to the response to the Staff's Second Request, Item 64. In its response, Kentucky Power states it "intends to initiate the programs upon receipt of a favorable Commission Order."

a. Based upon this response, is Kentucky Power stating it will not implement any of the proposed cycle-based vegetation management programs unless it specifically is granted the rate-making treatment it has proposed in this case? Explain the response.

b. The response also references the matching principle. Describe Mr. Everett G. Phillips' experience in applying the matching principle to utility rate-making operations.

c. What is Mr. Phillips' definition of the rate-making concept of "known and measurable?" Explain the response.

31. Refer to the response to the Staff's Second Request, Item 65 and Attachment C to the Appendix to the Commission's June 14, 1999 Order in Case No. 1999-00149,[3] pages 1 through 6 of 6. Attachment C includes the commitment of Kentucky Power to maintain the overall quality and reliability of its electric service at levels no less than it had achieved in calendar years 1995-1998. The measures of this performance are the Customer Average Interruption Duration Index ("CAIDI") and System Average Interruption Frequency Index ("SAIFI") including all storms.

a. Compare the responses to Item 65(c), the CAIDI and SAIFI overall indices including major events, with the baseline included in Attachment C, page 6 of 6.

[3] 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, final Order dated June 14, 1999.

Based upon this comparison, has Kentucky Power met its merger commitment? Explain the response in detail.

b. Part 4, page 1 of 6, of Attachment C describes how Kentucky Power will gather information on reliability and outages and "develop a comprehensive work plan each year which focuses efforts to improve service reliability. The Company will undertake all reasonable expenditures to achieve the goal of limiting customer outages." Has Kentucky Power been developing these annual work plans and has it undertaken all reasonable expenditures to achieve the goal of limiting customer outages? Explain the response in detail.

c. Part 9, page 3 of 6, of Attachment C states:

> 9. All prudent costs incurred to comply with the items contained in this Agreement, <u>once incurred</u>, will constitute known and measurable expenses that Kentucky Power shall have an opportunity to recover in accordance with traditional ratemaking principles, through recognition of these costs in its revenue requirement in future rate review. (emphasis added)

In this application, Kentucky Power is requesting rate recovery of estimated expenditures for vegetation management prior to incurring the actual expenditures. Explain in detail how Kentucky Power's proposal in this case is consistent with the provisions of Part 9 of Attachment C.

32. Refer to the response to the Staff's Second Request, Item 67, concerning Kentucky Power's proposed residential rate design, which maintains the current two-step declining block rate structure. Given the discussion regarding the relationship between the customer charge level and the two-step rate structure, to what extent did Kentucky Power consider proposing to increase the residential customer charge to the full cost of $8.69? Explain the response.

33. Refer to the response to the Staff's Second Request, Item 68(b). Provide a generic outline of the type of filing Kentucky Power envisions making on an annual basis to establish the Net Congestion Recovery Factor for the following calendar year.

34. Refer to the response to the Staff's Second Request, Item 70(a). Provide copies of the portions of previous Commission's Orders that found the 3-year average of the percentage of "Accounts – Net Charged Off" was reasonable.

35. Refer to the response to the Staff's Second Request, Item 71. Explain in detail why the revenue requirement for Kentucky Power's Kentucky jurisdictional operations should reflect Ohio franchise tax expense and West Virginia income tax expense. The explanation should address why the tax expense should be included in the operating statement of Kentucky Power, and not why the taxes should be reflected in the gross revenue conversion factor.

36. Refer to the response to the Staff's Second Request, Item 73. Provide an update on the status of the negotiations with the cities of Vanceburg and Olive Hill.

37. Refer to the response to the Staff's Second Request, Item 74. Provide copies of the portions of the Commission's October 28, 1991 Order in Case No. 1991-00066 that determined that deferred state income taxes are not recorded for rate-making purposes.

38. Refer to the response to the Staff's Second Request, Item 75(c). Provide the status of the "nearly 100,000 tons of coal" scheduled for delivery in November and December of 2005, and include the Big Sandy coal inventory level, stated in days' burn, as of December 15, 2005. Consider this an ongoing request and provide, by January 31, 2006, the same information as of January 15, 2006.

39. Refer to the response to the Staff's Second Request, Item 82. Based on its responses, is Kentucky Power proposing that the environmental surcharge to be billed to customers would be determined by the formula "CRR – MEBC" rather than the current approach of "CRR – BRR"? Explain the response.

40. Refer to the response to the AG's First Request, Item 44(a). For each of the items listed below, provide copies of the advertisement and explain why the expense should be included for rate-making purposes.

a. Voucher No. 0107994 – Floyd County Chamber Of Commerce – Invoice No. 805, page 3 of 6.

b. Voucher No. 00108939 – Clark Publishing Inc. – Invoice No. 36298, page 3 of 6.

41. Refer to the response to the Staff's Second Request, Item 94.

a. Concerning the response to Items 94(a) and 94(b), provide a further breakdown of the percentage of Edison Electric Institute ("EEI") dues for the following categories, if available:

(1) Advertising – six cost categories are identified in the category description.

(2) Marketing – the category description states this category contains both marketing and demand-side management costs.

b. Would Kentucky Power agree that the percentage of its EEI dues associated with Legislative Advocacy, Regulatory Advocacy, and Public Relations should be excluded for rate-making purposes? Explain the response.

c. Concerning the response to Item 94(c), Kentucky Power was requested to explain why the dues for the listed organizations should be included for rate-making purposes. The response did not include the requested explanations. Provide the originally requested information.

42. Refer to the response to the Staff's Second Request, Items 98(c) through 98(f). For each of the expense categories listed below, explain why the expense should be included for rate-making purposes:

a. Mge/Part Community Relations.

b. Mge/Part Env. Pub. Policy Issues.

c. Mge/Part Public Relations.

d. Mge/Part Public Policy Issues.

e. Mge/Part In Legislative Affrs.

f. Manage and Provide Branding.

43. Refer to the response to the Staff's Second Request, Item 99. Based on Kentucky Power's response, would it agree that the test-year expenses for REV1 Power Services Inc. and Area Land Surveys should be excluded for rate-making purposes? Explain the response.

44. Refer to the response to the Staff's Second Request, Items 105 and 106.

a. Compare the actual 2005 cost levels for Kentucky Power's pension and post-retirement, non-union benefits with the 2005 cost levels contained in the last actuarial valuation reports prior to 2005.

b. Is it correct that the actuarial valuation reports show costs in 2006 for Kentucky Power's pension and post-retirement, non-union benefits that are lower than the 2005 levels?

45. Refer to the response to the AG's First Request, Item 14(b).

a. Was Kentucky Power aware that the Commission has found in previous rate cases that the balance of prepayments included in the utility's rate base does not include any prepayment balance associated with the PSC Assessment? Explain the response.

b. Explain why Kentucky Power believes the PSC Assessment should be included in the prepayments balance included in its rate base.

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DATED December 12, 2005

cc: All Parties