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

FIRST DATA REQUEST OF COMMISSION STAFF
TO THE ATTORNEY GENERAL

The Attorney General ("AG"), by and through his Office of Rate Intervention, 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 27, 2006. 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.

1. Refer to the Direct Testimony of Robert J. Henkes ("Henkes Testimony"), page 7. Mr. Henkes recommends that the Kentucky corporate income tax rate used in this case should be 6.20 percent, and reflects the use of that rate on Schedule

RJH-1. However, Schedules RJH-5 and RJH-8 through RJH-30 reflect the use of a Kentucky corporate income tax rate of 6.39 percent. Indicate which rate Mr. Henkes supports and provide any schedule revisions required to reflect Mr. Henkes' recommendation.

2. Refer to the Henkes Testimony, page 9. Mr. Henkes states that Dr. Woolridge has recommended the embedded cost of long-term debt, short-term debt, and accounts receivable financing. However, at pages 2 and 3 of the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), Dr. Woolridge states that Mr. Henkes is testifying to the appropriate senior capital costs rates. Indicate which statement is correct, and provide the AG's recommendations concerning the cost of debt.

3. Refer to the Henkes Testimony, pages 11 through 13. State whether it is Mr. Henkes' opinion that Kentucky Power Company's ("Kentucky Power") proposed vegetation management program adjustment correctly applies the matching principle for rate-making purposes. Explain the response.

4. Refer to the Henkes Testimony, page 15. Explain why Mr. Henkes has reduced his proposed capitalization for the Kentucky Power to reflect the exclusion of the PSC Assessment from rate base.

5. Refer to the Henkes Testimony, page 33. Explain why Mr. Henkes believes the Consumer Price Index – Urban is more appropriate to use in determining the storm damage adjustment than the Handy Whitman Contract Labor factor.

6. Refer to the Henkes Testimony, page 34. Mr. Henkes proposes an adjustment to Kentucky Power's proposed amortization of regional transmission

organization formation costs. The Kentucky Industrial Utility Customers, Inc. ("KIUC") witness, Lane Kollen, opposes the inclusion of any amortization expense and the recognition of a regulatory asset for these costs. What is Mr. Henkes' opinion of Mr. Kollen's recommendation?

7. Refer to the Henkes Testimony, pages 58 and 59, and Schedule RJH-29. Explain why Mr. Henkes believes it is necessary to adjust accumulated deferred income taxes to reflect the adjustment to accumulated depreciation.

8. Refer to the Henkes Testimony, pages 60 and 61, concerning the discounts for electric service provided by Kentucky Power to some of its employees.

a. Section III, page 9 of 323, of Kentucky Power's application identifies $58,194 as the amount of "Employee Discount" for most of its residential service classifications with $1,152 shown on page 11 of 323 as the discount for its residential time-of-day rate classification. State whether this is the same type of employee discount referenced in Mr. Henkes' testimony.

b. The sum of the two discount amounts identified in part (a) of this request is $59,346. State whether Mr. Henkes advocates an adjustment to increase test year normalized revenues by this amount. Explain the response.

9. Refer to the Henkes Testimony, Schedule RJH-32. On this schedule Mr. Henkes notes examples of post-test-year adjustments that Kentucky Power could have made, but did not. KIUC's witness, Mr. Kollen, has proposed that the reductions in pension costs and other post-retirement benefit costs shown in Kentucky Power's actuarial studies be recognized for rate-making purposes in this case. What is Mr. Henkes' opinion of these proposals?

10. Refer to the Henkes Testimony, Schedule RJH-1.

a. Would Mr. Henkes agree that in previous rate cases, the Commission has included the PSC Assessment in the gross revenue conversion factor? Explain the response.

b. Would Mr. Henkes agree that the PSC Assessment should be recognized in the gross revenue conversion factor? Explain the response.

c. Provide a revised Schedule RJH-1 that includes the PSC Assessment in the determination of the gross revenue conversion factor.

11. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), page 8 of 30.

a. Explain in detail why Mr. Majoros did not provide his detailed service life study in its entirety as part of his testimony.

b. Provide Mr. Majoros's detailed service life study. At least one paper copy must be filed with the original copy of the data responses. The remaining copies may be submitted in electronic format on CD-ROMs.

12. Refer to the Majoros Testimony, page 9 of 30.

a. Can excessive depreciation result when positive net salvage value has been incorporated into the depreciation rates? Explain the response.

b. Does the definition of excessive depreciation rate on page 9 mean that the recovery of any cost through depreciation rates other than the original cost of the utility plant results in excessive depreciation expense? Explain the response.

c. Given the definition of excessive depreciation and excessive depreciation rates, does this define depreciation for regulated utilities as only being capital recovery of utility plant? Explain the response.

d. Provide the definition of depreciation, as defined by the Federal Energy Regulatory Commission's Uniform System of Accounts and by the National Association of Regulatory Utility Commissioners in the August 1996 Public Utility Depreciation Practices.

e. Does Mr. Majoros agree that the terms "capital recovery" and "service value" are not the same? Explain the response.

13. Refer to the Majoros Testimony, pages 10 and 11 of 30.

a. Provide the text of paragraph B73 from the Statement of Financial Accounting Standards ("SFAS") No. 143.

b. At page 11, line 11, Mr. Majoros states, "Current GAAP accounting rules require the $28.2 million excess collections be reported as amounts owed to ratepayers (regulatory liabilities) until they are spent on their intended purpose." Provide specific sections of SFAS No. 143 that state the balances contained in the regulatory liability accounts resulting from SFAS No. 143 are amounts owed to the utility ratepayers.

14. Refer to the Majoros Testimony, page 13 of 30. Provide all statements and other documentary evidence that Kentucky Power agrees that the amounts Kentucky Power has reported pursuant to the requirements of SFAS No. 143 for non-legal asset retirement obligations represent amounts owed to ratepayers.

15. Refer to the Majoros Testimony, page 15 of 30.

a. Does Mr. Majoros agree that the proposed charge for cost of removal of $13.8 million relates to total depreciable plant of $1,303.1 million? Explain the response.

b. What was the original cost of the utility plant retired that produced the 5-year average cost of removal of $3.2 million? Include all supporting workpapers, calculations, and assumptions used to derive the original cost.

c. Has Mr. Majoros prepared any analyses for any retirement of utility plant made by Kentucky Power that compares the cost of removal incorporated into the depreciation rate and accrued for that utility plant with the actual cost of removal incurred at retirement?

(1) If yes, provide all analyses.

(2) If no, explain why such analyses have not been performed.

d. Explain how comparing the proposed $13.8 million charge for cost of removal on utility plant currently in use with the actual cost of removal for utility plant retired constitutes the analysis the Commission discusses at pages 36 and 37 of its December 22, 2005 Order in Case No. 2005-00042.[1]

16. Refer to the Majoros Testimony, page 23 of 30.

a. Concerning Mr. Majoros's proposal to use an average of actual cost of removal experience, explain why a 5-year period is reasonable.

b. Given Mr. Majoros's proposal for a 5-year average of actual cost of removal experience, how frequently should a utility like Kentucky Power conduct a

[1] Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company.

depreciation study? Explain the response and state how frequently most investor-owned utilities conduct depreciation studies.

17. KIUC's witness, Mr. Kollen, has recommended using all salvage and removal data in the determination of the appropriate level of net negative salvage to include in Kentucky Power's proposed depreciation rates. What is Mr. Majoros's opinion of Mr. Kollen's recommendation? Explain the response.

18. While reviewing the historical salvage and removal data for Kentucky Power, did Mr. Majoros have concerns about the reasonableness or accuracy of the data? Explain the response.

19. Refer to the Majoros Testimony, page 27 of 30. Does Mr. Majoros agree that the environmental requirements of the Clean Air Interstate Rule could make the continued operation of Big Sandy Unit 1 uneconomical by 2015? Explain the response.

20. Refer to the Woolridge Testimony, page 5. Provide a copy of Jeremy J. Siegel's article, "The Shrinking Equity Risk Premium."

21. Refer to the Woolridge Testimony, page 8, where Dr. Woolridge discusses his selection criteria for Group A.

a. Explain why Dr. Woolridge chose 80 percent as the minimum level of electric revenues.

b. Provide Kentucky Power's percentage of revenue from electric operations.

c. Provide the percentage of regulated generation capacity represented by nuclear facilities for each company in the group.

d. Provide the percentage of total revenue represented by regulated electric revenues for each company in the group.

22. Refer to the Woolridge Testimony, pages 19 and 20. In developing his dividend yield for the Discounted Cash Flow ("DCF") model, Dr. Woolridge explains that he uses the average of the dividend yields for the six month period July through December, 2005 and the December 2005 dividend yield.

a. Did Dr. Woolridge average the mean of the six month period and the mean of December 2005 in order to derive the dividend yields used in his DCF analysis presented in Exhibit JRW-7, page 1 of 5?

b. If yes, explain the rationale for averaging the mean of the six months with one of its subparts.

c. Explain the derivation of and the rationale for applying an adjustment factor to the Dividend Yield.

23. Refer to the Woolridge Testimony, page 23, and Exhibit JRW-7, page 3 and 4 of 5. Dr. Woolridge appears to have averaged the mean and the median values of the Earnings, Dividends, and Book Value columns.

a. Explain the meaning and validity of averaging the mean and median values for use in the DCF calculations.

b. Explain the meaning and validity of averaging the mean and median values for the average historic growth rate of both the past 10 years and the past 5 years.

c. Explain the rationale for averaging the mean and medians for the past 10 years with a subpart of 5 years.

d. Explain the meaning and validity of using an average of Earnings, Dividends, and Book Values in the DCF calculations.

e. Explain why it is reasonable to use negative and zero values in these calculations.

24. Refer to the Woolridge Testimony, page 24, and Exhibit JRW-7, pages 4 and 5 of 5. Explain why the Value Line Earnings per Share ("EPS") projected growth rates were not included with the other analysts.

25. Refer to the Woolridge Testimony, Exhibit JRW-7, pages 3 through 5 of 5. Provide the missing values for Green Mountain Power Company, Exelon Corporation, Vectren Corporation, and MGE Energy Inc. and resubmit all tables including the missing data points.

26. Refer to the Woolridge Testimony, page 25.

a. Provide the source for the Historic Value Line Growth of .6 percent in EPS, Dividends per Share, and Book Value per Share for Group A.

b. Dr. Woolridge proposes using 4 percent, the top of the range, as the growth rate for Group A instead of an average of the projected growth rates. For Group B, he proposes an average of the projected growth rates. Explain why it is appropriate to develop one growth rate without averaging and one with averaging.

27. Refer to the Woolridge Testimony, page 28. Dr. Woolridge states that the benchmark for long-term Treasury bonds is the 10-year Treasury bond. Provide any reports, studies, or other documentation upon which Dr. Woolridge relied in making this statement.

28. Refer to the Woolridge Testimony, page 51. Dr. Woolridge states that Mr. Moul uses an inappropriate proxy group; however, Dr. Woolridge uses Mr. Moul's proxy group as his Group B. Explain why Dr. Woolridge includes Group B in his analysis if it is an inappropriate set of companies.

29. Refer to the Woolridge Testimony, pages 54 and 55. Dr. Woolridge criticizes Mr. Moul's DCF results, in part because Mr. Moul uses data that contains outliers. Dr. Woolridge addressed outliers in his own analysis by averaging the mean and the median values. Would this approach correct some of the problems Dr. Woolridge sees with Mr. Moul's DCF analysis?

30. Refer to the Testimony of David H. Brown Kinloch ("Kinloch Testimony"), pages 3 through 10, and the Direct Testimony of Stephen J. Baron, pages 10 through 13, filed on behalf of KIUC.

a. Mr. Kinloch contends that, because of the "black box" nature of the TACOS Gold software used by Kentucky Power to produce its cost of service study ("COSS"), he was unable to verify, produce, or replicate the calculations performed in Kentucky Power's COSS. Mr. Baron states that Kentucky Power filed a 12 Coincidence Peak ("12 CP") COSS in this case. Was Mr. Kinloch unable to determine that Kentucky Power used the 12 CP method in preparing its COSS? Explain the response.

b. Mr. Baron also states that he independently developed a 12 CP COSS, using inputs provided by Kentucky Power, which produced results identical to Kentucky Power's COSS. Explain why Mr. Kinloch was unable to perform a verification of Kentucky Power's COSS as did Mr. Baron.

c. On page 9 of his testimony, Mr. Kinloch cites the requirement for a COSS contained in 807 KAR 5:001, Section 10(6)(u), which requires "a cost of service study based on a methodology generally accepted within the industry." In Mr. Kinloch's opinion, is the 12 CP method a method that is generally accepted within the electric industry? Explain the response.

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DATED January 18, 2006

cc: All Parties