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 KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

The Kentucky Industrial Utility Customers, Inc. ("KIUC"), 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 Lane Kollen ("Kollen Testimony"), page 6. To the extent not already supplied, provide all calculations, workpapers, and assumptions used by Mr. Kollen to determine his revenue requirement effects shown on page 6.

2. Refer to the Kollen Testimony, pages 6 and 41 through 49.

a. The first item listed under “Operating Income Issues” on page 6 is “Correct Error in Off-System Sales Margin Roll-in” in the amount of $(2.035) million. Is this item intended to correspond to the jurisdictional amount of $2.036 million on lines 18 and 19 of page 41, which is identified as an error that incorrectly increased O & M expense? If no, explain the response.

b. The second item listed under “Operating Income Issues” on page 6 is “Increase Off-System Sales Margins to 2006 Projection” in the amount of $(5.102) million. Does this item represent the jurisdictional portion of the $5.145 million (Total Company) on line 19 of page 44? If no, explain the response.

c. Page 48 identifies an adjustment of $3.603 million to increase off-system sales margins due to a reallocation of such margins between American Electric Power Company (“AEP”) East and AEP West companies. In the question and answer starting on line 9 of page 48, Mr. Kollen states that the Commission should reflect this increase in off-system sales margins in Kentucky Power Company’s (“Kentucky Power”) base revenue requirement. However, this amount is not in the summary of revenue requirement recommendations on page 6 of the testimony. Should this amount have been included on page 6? Explain the response.

3. Refer to the Kollen Testimony, pages 7 through 15, which includes the recommendation that the Commission accept the proposed Net Congestion Recovery Rider (“NCR”) subject to “several” modifications.

a. The first modification, which is identified on page 8, is to include off-system sales margins in the NCR and terminate Kentucky Power’s existing System Sales Clause Rider (“SSC”). The second modification, identified on pages 8 and 9, is to change the amounts rolled-in to base rates for financial transmission rights and auction revenue rights revenues, congestion costs, and system sales margins, based on KIUC's proposed amounts for these items. These appear to be the only two modifications to the proposed NCR identified in the Kollen Testimony. Are there only two modifications rather than "several" modifications? Explain the response.

b. Starting at line 11 on page 8 and continuing through line 12 of page 15, Mr. Kollen discusses KIUC's proposed treatment of off-system sales margins versus the current treatment under the SSC. However, there is no discussion of the merits of the NCR or why he recommends that it be accepted by the Commission, aside from his discussion of capturing greater off-system sales margins for the benefit of ratepayers. State all other reasons, if any, for why Mr. Kollen favors the NCR. Explain the response.

4. Refer to the Kollen Testimony, pages 15 through 20.

a. Does Mr. Kollen agree that Kentucky Power's proposed roll-in of its environmental surcharge into base rates is consistent with the surcharge formula "CRR – BRR," where the two revenue requirements are netted before the surcharge factor is determined? Explain the response.

b. Provide the calculations used to determine the $6.7 million amount Mr. Kollen references on page 19.

c. Provide the base period jurisdictional environmental surcharge factor Mr. Kollen would propose for Kentucky Power's environmental surcharge roll-in. Include all calculations, workpapers, and assumptions used to determine the factor.

5. Refer to the Kollen Testimony, pages 23 and 24. Mr. Kollen proposes to adjust both Kentucky Power's rate base and capitalization to reflect the use of 13-month average balances for non-fuel materials and supplies. Was Mr. Kollen aware that the Commission typically uses 13-month average balances for these accounts in the determination of the rate base, but does not make a corresponding adjustment to capitalization? Explain the response.

6. Refer to the Kollen Testimony, pages 31, 32, and 52.

a. In Mr. Kollen's opinion does Kentucky Power's proposed vegetation management program adjustment constitute a known and measurable adjustment? Explain the response.

b. In Mr. Kollen's opinion does Kentucky Power's proposed vegetation management program adjustment reflect the correct application of the matching principle for rate-making purposes? Explain the response.

7. Refer to the Kollen Testimony, page 34. Mr. Kollen states that because Kentucky Power's minimum pension funding liability does not reflect additional pension contributions made prior to June 30, 2005, it is necessary to reduce all capitalization proportionately by the amount of the additional pension funding. Would Mr. Kollen's approach produce the same effect as having the minimum pension funding liability recalculated as of June 30, 2005? Explain the response.

8. Refer to the Kollen Testimony, pages 35 through 40, 50, and 51.

a. Explain how Mr. Kollen determined that Kentucky Power has included the regional transmission organization formation costs ("RTO formation costs") in its proposed capitalization?

b. Would Mr. Kollen agree that the recognition of the RTO formation costs as a regulatory asset results in a rate base item rather than a capitalization item? Explain the response.

c. In previous Commission decisions, the amortization of a regulatory asset has been included for rate-making purposes, but the unamortized balance of the regulatory asset has not been included in the determination of the utility's rate base. If the Commission concludes that the amortization of the RTO formation costs should be included for rate-making purposes, would Mr. Kollen recommend the unamortized balance of the regulatory asset be included or excluded from the determination of Kentucky Power's rate base? Explain the response.

9. Refer to the Kollen Testimony, pages 49 and 50.

a. Provide the basis for the statement at line 1 of page 50 that short-term interest rates have risen significantly since the beginning of the test year.

b. Does Mr. Kollen agree with the interest rates proposed by Kentucky Power for long-term debt, short-term debt, and accounts receivable financing? Explain the response.

10. Refer to the Kollen Testimony, pages 52 through 55.

a. Was Mr. Kollen aware that Kentucky Power's parent, AEP, announced on January 4, 2006 that it had fully funded its pension liabilities for 2005?

b. Explain the impact, if any, AEP's decision to fully fund its pension program has upon Mr. Kollen's proposed pension adjustments.

11. Refer to the Kollen Testimony, pages 57 through 69.

a. Concerning the inclusion of demolition costs for the Big Sandy plant, was Mr. Kollen aware that Kentucky Power had included such costs in its previous depreciation study? Explain the response.

b. Identify which set of his proposed depreciation rates Mr. Kollen is recommending the Commission use to determine the revenue requirements in this case.

c. Concerning the retirement of Big Sandy Unit 1 in 2015, would Mr. Kollen agree that the environmental requirements of the Clean Air Interstate Rule could make the continued operation of Big Sandy Unit 1 uneconomical? Explain the response.

d. Explain how Mr. Kollen determined that 5 years was an appropriate extension of the retirement date for Big Sandy Unit 1.

e. On page 66, Mr. Kollen recommends 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. The Attorney General's ("AG") witness, Michael J. Majoros, Jr., proposes that the cost of removal factors should be based on the most recent 5-year average of actual cost of removal experience. What is Mr. Kollen's opinion of Mr. Majoros's recommendation?

12. Refer to the Kollen Testimony, pages 74 through 76.

a. Mr. Kollen proposes to reflect the reduction in the Kentucky corporate income tax rate effective January 1, 2007. Will the Internal Revenue Code Section 199 ("Section 199") deduction percentage for 2007 be 3 percent? Explain the response.

b. If the Section 199 deduction percentage changes in 2007, would Mr. Kollen agree the change in this deduction percentage should be recognized? If yes, what would be the impact of this change on Mr. Kollen's recommendations?

13. To recognize that the Section 199 deduction applies only to production taxable income, Mr. Kollen proposes to allocate the common equity portion of Kentucky Power's capitalization between production and non-production components.

a. While it is the return on the common equity portion of capitalization that is grossed up for income taxes in determining revenue requirements, would Mr. Kollen agree that his allocation approach, shown in Exhibit LK-4, in effect assumes that production activity is financed solely by common equity? Explain the response.

b. Explain why the allocation percentage should be based on rate base.

c. Would using an allocation percentage based on the ratio of production plant to total utility plant be a reasonable approach? Explain the response.

d. In order to reflect the Section 199 deduction for production activity, would an allocation of the total revenue deficiency between production and non-production and the application of the appropriate gross revenue conversion factor produce the same effect as that proposed by Mr. Kollen? Would such an approach be reasonable? Explain the responses.

14. Refer to the Kollen Testimony, Exhibits LK-10 through LK-14.

a. Explain why the amounts shown on the first page of each exhibit under the column "KIUC Adjusted Annualized Depreciation" do not agree with the

"Recommended Annual Amount" shown on Schedule I of each exhibit. If necessary, provide revisions to the exhibits reflecting the correct depreciation expense.

b. Prepare a revised first page and Schedule I for each exhibit reflecting the inclusion of the $32,000,000 in demolition costs associated with the Big Sandy plant.

15. Refer to the Kollen Testimony, Exhibits LK-15 and LK-16.

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

c. Provide revised Exhibits LK-15 and LK-16 that include the PSC Assessment in the determination of the gross revenue conversion factor.

16. Refer to the Kollen Testimony, Exhibit LK-17. Provide the calculations used to determine the "Production Only %" figures shown in this exhibit. Include all supporting workpapers and assumptions used in the calculations.

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

a. Mr. Baron states that Kentucky Power filed a 12 Coincident Peak ("12 CP") cost of service study ("COSS") in this case. He 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. Mr. Kinloch contends that because of the "black box" nature of the TACOS Gold software used by Kentucky Power to produce its COSS, he was unable to verify, produce, or replicate the calculations performed in Kentucky Power's COSS. Does Mr. Baron share any of Mr. Kinloch's concerns about Kentucky Power's COSS and the Commission's reliance on it in this case? Explain the response.

b. 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. Baron's opinion is the 12 CP method a method that is generally accepted within the electric industry? Explain the response.

18. Refer to the Baron Testimony, pages 12 and 13. Mr. Baron states that Kentucky Power's COSS "is a reasonable basis to inform the Commission regarding the relationship between current rates and cost of service for each of the Company's rate schedules." On pages 10 through 12 of his testimony, Mr. Kinloch recommends that the Commission adopt the class allocation percentages included in the settlement agreement it approved in Kentucky Power's last rate case.[1] What is Mr. Baron's opinion on this recommendation? Explain the response.

19. Refer to the Direct Testimony of Richard A. Baudino ("Baudino Testimony"), page 18.

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

a. For each company in the comparison group, provide the percentage of total revenues derived from regulated electric operations, regulated natural gas operations, if any, and non-regulated operations.

b. Kentucky Power does not operate any nuclear generation facilities. For each company in the comparison group, provide the percentage of generation capacity derived from nuclear operations.

20. Refer to the Baudino Testimony, page 21. Provide a copy of the material referenced in Footnote 5.

21. Refer to the Baudino Testimony, page 30. Mr. Baudino discusses his use of both the 20-year Treasury bond and the 5-year Treasury note in developing his risk free rate for the Capital Asset Pricing Model ("CAPM"). While the 20-year bond does carry interest rate risk, would Mr. Baudino agree that its use better matches the long-term horizon of a stock?

22. Refer to the Baudino Testimony, page 33. Mr. Baudino states that he did not take his CAPM results into consideration when developing his recommendation because he believes that the CAPM results are overstated. Provide an estimate of the amount of overstatement Mr. Baudino believes is in the CAPM results.

23. Refer to the Baudino Testimony, page 34. Provide a copy of the study referenced in Footnote 9.

24. Refer to the Baudino Testimony, Exhibit RAB-4, page 2 of 3. Explain why Mr. Baudino uses a 3-year average Earnings per Share ("EPS") in the calculation rather than the EPS for the most current year.

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DATED January 18, 2006

cc: All Parties