COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2012-00578

COMMISSION STAFF'S SECOND INFORMATION REQUEST TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission the original and eight copies of the following information, with a copy to all parties of record. The information requested herein is due by March 21, 2013. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Power shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky Power fails or refuses to furnish all or part of the requested information, Kentucky Power shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Kentucky Power's response to Commission Staff's First Request for Information (Staff's First Request), Item 1. On the CD provided with the response, there are five folders for each of the scenarios (Base, Early Carbon, Higher Band, Lower Band and No Carbon) analyzed. Each of the five folders contains an Excel workbook for each of the 11 alternatives analyzed. For each of the Excel workbooks, identify the source of the information provided under the following tabs and, where appropriate, include a description of the calculations performed to determine the values provided:

   a. Change1

b. Change3A

c. East Change4

d. Base

e. Base2

f. Change3

g. Gas NOX.

2. Refer to Kentucky Power's response to Staff's First Request, Item 2.a.

a. Provide the reconciliation of the net book value of the 50 percent interest in Mitchell as of December 31, 2011 in the amount of $519 million and, using the amounts shown on of Attachment 1, pages 3-6, of Item 2 along with the associated retirements and depreciation, the 50 percent interest in Mitchell at December 31, 2013 of $535 million.

b. Beginning with the net-book value of the Mitchell Plant as of December 31, 2008, provide a yearly reconciliation showing the plant additions, associated retirements and annual depreciation through December 31, 2012.

c. State whether Kentucky Power is asserting that, if the Mitchell Transfer and Assumption Transaction had occurred on December 31, 2012, it would have had a beginning inventory balance of 1.446 million (Mitchell 0.630 + Big Sandy 0.816) in emission allowances at $13.834 million (Mitchell $3.733 + Big Sandy $10.101).

3. Refer to Kentucky Power's response to Staff's First Request, Item 7.

a. Confirm that the 12-month capacity payments were: for December 31, 2008, $51,669,284; for December 31, 2009, $57,261,538; for December 31, 2010,

$58,414,209; for December 31, 2011, $54,522,751; and for December 31, 2012, $22,317,455.

b. If the answer to part a. is yes, explain the decrease in the annual capacity payments from 2011 to 2012.

c. State whether there will be any energy transactions between Kentucky Power and its affiliated companies once the Power Coordination Agreement becomes effective, or whether all additional energy Kentucky Power needs to serve its full-requirement customers will be purchased only at market.

4. Refer to Kentucky Power's responses to Staff's First Request, Items 10.b. and Item 11. In comparing Mitchell Plant Unit 1's fuel cost (which is the highest of the two Mitchell Units) with Big Sandy Unit 2's fuel cost (which is the larger of the Big Sandy Units), state whether Kentucky Power agrees that the Mitchell's Plant Unit 1's fuel cost is approximately 11 percent less than the Big Sandy fuel cost for years 2011 and 2012.

5. Refer to Kentucky Power's response to Staff's First Request, Item 15.

a. In response to Item 15.b., Kentucky Power states, "PJM capacity sales already committed during this period will be allocated among the operating companies based upon final MLR." State whether Kentucky Power is saying that each of the members of the American Electric Power ("AEP") East Pool Agreement ("AEP Pool") will receive its final MLR share of capacity sales to PJM, even though none of the capacity-deficit members will be making any capacity payments to the capacity-surplus members. If the answer is no, provide an explanation.

b. If Kentucky Power's actual weather-normalized winter peak for 2012 was 1,471 MW,[1] and if Kentucky Power's installed capacity from January 1, 2014 through May 30, 2015 will be 2,250 MW, confirm that Kentucky Power and its ratepayers will be responsible for paying the costs associated with approximately 53 percent ((2,250 – 1,471)/1,471) more capacity than required to meet their load.

c. Explain why it is appropriate for the deficit members of the AEP Pool to receive their final MLR share of PJM capacity sales if the deficit members are not paying any capacity payments to the surplus member.

d. Explain the meaning of the phrase "predominantly in PJM" as stated in the response to Item 15.c.

6. Refer to Kentucky Power's response to Staff's First Request, Items 16 and 64. Also, refer to the response to Commission Staff's Third Information Request, Item 2, in Case No. 2011-00401[2] where it states the following:

> No. Had the most recent technical and commercial evaluation of the FGD Technologies indicated that a wet FGD was the most economical alternative for scrubbing Big Sandy Unit 2, then the work performed by Black & Veatch would have been applicable to the project. Because the most recent evaluations have determined that Kentucky Power's customers will receive the greatest benefit from the application of a dry scrubber technology, than *(sic)* work associated with the wet technology, although prudent at the time, is not directly applicable.

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[1] Kentucky Power Company's Response to KIUC First Set of Data Requests, Item 16, Attachment 1, page 1 of 1, filed Feb. 20, 2013.

[2] Case No. 2011-00401, Application of Kentucky Power Company for Approval of Its 2011 environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities (Ky. PSC May 31, 2012).

a. State whether the $5,966,590 identified in Case No. 2011-00401 as expenses for engineering work in connection with a wet flue gas desulfurization ("FGD") is also included in the $29,287,494 of incremental costs associated with the Phase 1 investigation. If so, state whether the $5,966,590 is still prudent for recovery in this proceeding, if it was not directly applicable in Case No. 2011-00401.[3]

b. State whether there are any other charges in the $29,287,494 that may have been prudent at the time, but are no longer directly applicable in this proceeding.

7. Refer to Kentucky Power's response to Staff's First Request, Item 19. In the 13-year period shown in part a., state how many months Kentucky Power was a surplus-capacity member in the AEP Pool.

8. Refer to Kentucky Power's response to Staff's First Request, Item 20. State whether the impact on energy costs as a result of the termination of the current pool agreement is reflected in the 8 percent increase referenced in paragraph 39 of Kentucky Power's application. If yes, provide the amount and the reference where this increase can be found.

9. Refer to Kentucky Power's response to Staff's First Request, Item 24. Provide a copy of the Request for Proposal after it is issued.

10. Refer to Kentucky Power's response to Staff's First Request, Item 27.b. Provide the reasons and/or rationale used by the individuals making the decision to make only 50 percent of the Mitchell Plant available to Kentucky Power and not an undivided interest from any of the other surplus AEP East generating plants.

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[3] *Id.*

11. Refer to Kentucky Power's response to Staff's First Request, Items 29 and 30. For the years 2012 through 2019 the nominal power prices are different in the two responses.

a. Provide an explanation for the differences in the figures and, if any calculations are used to explain the differences, provide the calculations.

b. Explain which values were used for the analysis and why they were used.

12. Refer to Kentucky Power's response to Staff's First Request, Item 31. The forecasted values used in the company's analysis were prepared in late November of 2011. On August 21, 2012, the D.C. Circuit Court of Appeals vacated the Cross-State Air Pollution Rule ("CSAPR").

a. State whether the company considers the vacating of CSAPR a "substantive change in a key driver" of its forecasts of on- and off-peak energy prices.

b. If the answer to a. above is yes, explain.

c. If the vacating of CSAPR is considered a key driver, discuss the potential impact on the company's forecasts of energy prices.

d. If the vacating of CSAPR is considered a key driver, explain why the company did not update its energy price forecasts.

13. Refer to Kentucky Power's response to Staff's First Request, Item 33.

a. The provided EFOR table indicates that the Mitchell Unit 1 Equivalent Forced Outage Rate ("EFOR") has been trending up to 13.14 percent. Provide a detailed summary of the reasons for this excessively high EFOR.

b. Provide the annual EFOR projections from 2013-2017 for each unit at Mitchell plant and explain how the actual EFOR achieved in each of those years will be at or below the projected EFOR.

14. Refer to Kentucky Power's response to Staff's First Request, Item 34. Kentucky Power has stated that the Mitchell Plant Units 1 & 2 FGD system was initiated in 2003 and placed into service in 2007, while the Big Sandy Unit 2 FGD system was initiated in 2004 and was never constructed. Explain why the Big Sandy Unit's FGD was under consideration for so long and state whether any other FGD systems within AEP were under consideration for this long before construction. If the response to the above question is yes, identify the generating plants.

15. Refer to Kentucky Power's response to Staff's First Request, Item 34.e. The response indicates that the need for baghouse technology was evaluated in 1978.

a. State whether the need for baghouse technology at the Mitchell Units has been re-evaluated since 1978 and if so, provide the most recent evaluation.

b. Explain why the company is confident that the Mitchell Units will meet the Mercury and Air Toxics Standard ("MATS") requirements without the installation of baghouse technology.

16. Refer to Kentucky Power's response to Staff's First Request, Item 39. At $536 million, the cost of the Mitchell capacity will be approximately $687 per kW. If non-AEP coal-fired capacity located outside PJM were to be available to Kentucky Power, explain how much below $687 per kW it would need to be priced to make it more attractive to Kentucky Power than the Mitchell capacity.

17. Refer to Kentucky Power's response to Staff's First Request, Item 41 a., b., and c.

a. Describe in detail how the Mitchell Plant plans to meet the MATS regulations.

b. Explain what mercury-control technology will be applied.

18. Refer to Kentucky Power's response to the Staff's First Request, Item 42 a., b., and c.

a. Identify the future costs associated with the implementation of controls required to meet the December 2012 NAAQS $PM_{2.5}$ standards.

b. State whether these costs were included in the decision analysis.

c. If these costs were included, provide a specific reference to this analysis.

19. Refer to Kentucky Power's response to Staff's First Request, Item 52, Attachment 1.

a. Provide the source for the value identified as "Present Value of KPCO Internal Sales Requirement over period: 2016-2040 (MWh)."

b. If this is a calculated value, provide the calculation.

20. Refer to Kentucky Power's response to Staff's First Request, Item 55 and the files provided on the CD.

a. Identify the source of the information provided on the CD under tabs #1A, #1B, #2A, #2B, #3A, #3B, #4A, #4B, #5A, #5B, and #6.

b. Provide the calculations and formulae used to populate the Excel spreadsheets.

21. Refer to Kentucky Power's response to Staff's First Request, Item 58.b. State whether the Interim Allowance Agreement ("IAA") has a provision at the end of each calendar year that each of the AEP Pool members are obligated to have their Member Load Ratio ("MLR") share of the AEP East allowances inventory and that there is a year-end adjustment to reflect this provision.

22. Refer to Kentucky Power's response to Staff's First Request, Item 59.

a. Provide the amount of dividends for 2008 to 2012.

b. State whether Kentucky Power has ever paid, in the last 10 years, a dividend of $75 million or greater.

c. If the entry for the proposed $75 million is to reduce Equity and Cash, state whether Kentucky Power believes it will have the necessary cash balance to pay the dividend, or if it anticipates borrowing the necessary funds.

d. If the answer to part c. is that funds will be borrowed to pay the $75 million dividend, state whether this will add additional debt to the Mitchell Transfer and Assumption Transaction and whether borrowing an additional $75 million would impact the debt-equity ratio.

e. If 'n' is 3 (the number of years between 2009 and 2012), the net present value is $23,936 (2009's net income) and the future value is $50,978 (2012's net income), calculate the annual internal rate of return.

23. Refer to Kentucky Power's response to Staff's First Request, Item 62. Provide Kentucky Power's plan for the estimated $56.3 million of net salvage amount for Big Sandy Plant.

24. Refer to Kentucky Power's response to Staff's First Request, Item 62, in which Kentucky Power provided the depreciation rates for the Big Sandy plant and the Mitchell plant. State whether a depreciation study will be provided in Kentucky Power's next base rate case, proposed to be filed no later than June 28, 2013,[4] for the Mitchell plant and, if so, whether depreciation rates will be by plant account.

25. Refer to Kentucky Power's response to Staff's First Request, Item 65. Provide the following:

a. The AEP East total and Kentucky Power's internal, member load ratio ("MLR"), maximum 60–minute integrated MW demand experienced during the 12 months ending November 30, 2009;

b. The percentage change between AEP East's total internal, MLR, maximum 60–minute integrated MW demand experienced during the 12 months ending November 30, 2009 and 12 months ending November 30, 2012; and

c. The percentage change between Kentucky Power's internal, MLR, maximum 60–minute integrated MW demand experienced during the 12 months ending November 30, 2009 and 12 months ending November 30, 2012, along with the customer classes that accounted for the changes.

26. Refer to Kentucky Power's response to Staff's First Request, Item 66. Provide the "Total Costs to Present," broken down by major categories.

27. Assuming a Fabric Filter would be required to meet the NAAQS $PM_{2.5}$ regulations at an Environmental Protection Agency estimated cost of \$170/kw, this would result in an additional cost of \$133 million for the 780 MW. Provide a re-run of the

[4] Direct Testimony of Ranie K. Wohnhas, page 8, lines 11-12, filed December 19, 2012.

model assuming this additional cost, effective when the proposed the NAAQS $PM_{2.5}$ regulations are expected to go into effect, or if unsure, use 2019.

28. State whether Kentucky Power was aware of, or a party to, the AEP agreement to retire three coal-fired generating facilities: (1) Tanners Creek Generating Station, Unit 4 in Indiana; (2) Muskingum River Power Plant Unit 5 in Ohio; and (3) Big Sandy Unit 2 in Kentucky.

29. Provide a copy of all existing coal contracts for the Mitchell Plant. Include the name of the seller, length of the term of the contract, the pricing terms, and today's current market price of comparable quality coal per contract.

30. Refer to Kentucky Power's response to the Attorney General's Initial Requests for Information, Item 10, which states, "The Pool Agreement does not specifically address the treatment of demand side management ("DSM")." Provide the following:

a. How many of the five AEP Pool members have active DSM programs; and

b. When each of the five members of the AEP Pool first initiated DSM programs.

31. Refer to the response to Kentucky Industrial Utility Consumers First Set of Data Requests ("KIUC's First Set"), Item 18, Attachment 1, page 1, which states, "The other East operating companies, Appalachian Power ("APCo"), Indiana Michigan Power ("I&M"), and Kentucky Power ("KPCo") are not governed by the election made by OPCo for PY 15/16." State whether the other AEP East operating companies will be

considered summer peaking companies or winter peaking companies for PJM planning purposes.

32. Refer to Kentucky Power's response to KIUC's First Set, Item 31 and file BS 1 Gas Conversion STRAT INPUT DATA2.xls. The data provided in the file goes through 2030 or 2036. Explain why the data is not provided through the year 2040.

33. Refer to Kentucky Power's response to Sierra Club's Initial Request for Information ("Sierra Club's Initial Request"), Item 6. Provide the East Interchange Power Statement and Related Data Actual, page 3, for the month prior to the Waterford Generating Station's being placed into service by the AEP affiliate, Ohio Power Company, along with a calculation of the deficit percentage for each deficit member of the Pool at that time.

34. Refer to Kentucky Power's response to Sierra Club's Initial Request, Item 7. Provide the East Interchange Power Statement and Related Data Actual, page 3, for the month prior to the Lawrenceburg Plant's being placed into service by the AEP affiliate, Indiana Michigan Power Company, along with a calculation of the deficit percentage for each deficit member of the AEP Pool at that time.

35. Provide the East Interchange Power Statement and Related Data Actual, page 3, for the month prior to the Dresden plant's being placed into service as an AEP Generating facility, along with a calculation of the deficit percentage for each deficit member of the Pool at that time.

36. Refer to Kentucky Power's response to Sierra Club's Initial Request, Item 17, which states, "Kentucky Power receives capacity and energy from Ohio Power based on the average cost of all of Ohio Power's primary generation resources,

including Mitchell. As such, the amounts Kentucky received specifically from Mitchell are not identifiable." Provide an explanation of how the average cost of primary energy is calculated if the Pool does not know how much energy and at what cost from the different AEP plants is assigned to Kentucky Power in any given hour of the year.

37. On February 22, 2013, Kentucky Power's outlook was revised from stable to negative by Fitch Ratings.[5] State whether this rating will affect the cost of financing the Mitchell Transfer and Assumption Transaction, and if so, how. Discuss any actions Kentucky Power is planning to improve its Fitch Rating.

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DATED MAR 08 2013

cc: Parties of Record

[5] Per Reuters.com website, http://www.reuters.com/article/2013/02/22/idUSWNB003AV20130222.

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