Kentucky Power Company

REQUEST

The Company has proposed a test year prepayment balance of $661,934 which represents the actual prepayment balance as of the end of the test year, 6/30/05. In this regard, please provide the following information:

a. From the information on Section IV, page 14, it can be derived that the corresponding 13-month average prepayment balance for the test year amounts to $1,016,099. Please confirm this. If you do not agree, explain your disagreement.

b. From the information on Section IV, page 14, it can be derived that the 13-month average test year prepayment balance associated with prepaid KPSC assessment fees amounts to $213,404. Please confirm this. If you do not agree, explain your disagreement.

RESPONSE

a. The 13-month average prepayment balance for the test year is $1,016,099.

b. The 13-month average test year prepayment balance associated with prepaid KPSC assessment fees is $213,404.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

With regard to the pension fund contributions discussed on page 41, lines 6-12 of Mr. Wagner's testimony and shown on Section V, S-4, page 40, please provide the following information:

a. Do the contributions represent the actual cash contributions of the Company as required by ERISA? If not, explain the basis for these pension-funding contributions.

b. Please provide a side-by-side comparison of the Company's (KPCo Electric) actual pension fund contributions (in accordance with ERISA requirements) and the Company's pension expense bookings (in accordance with FASB 87) for the last 10 years, for the test year ended 6/30/05, and as projected for the next 5 years.

RESPONSE

a. The contributions to the pension plan are the actual cash contributions made by the company. The contribution amount was chosen to try to restore the pension plan to a fully funded status (with pension assets equal to pension liabilities) by the end of 2006.

b. Actual pension fund contributions (in accordance with ERISA requirements) and the Company's pension expense bookings (in accordance with FASB 87):

Acutals	Pension Contributions	Pension Expense (Credits)
12 months ended 12/31/1999	-	(392,899)
12 months ended 12/31/2000	-	(2,074,637)
12 months ended 12/31/2001	-	(1,922,311)
12 months ended 12/31/2002	-	(378,647)
12 months ended 12/31/2003	1,613,800	(582,318)
12 months ended 12/31/2004	451,453	554,616
12 months ended 6/30/2005	6,430,231	1,020,805
Current estimates for:		
12 months ended 12/31/2005	14,773,811	1,483,640
12 months ended 12/31/2006	-	1,055,403
12 months ended 12/31/2007	-	1,115,990
12 months ended 12/31/2008	113,187	725,912
12 months ended 12/31/2009	217,221	645,561
12 months ended 12/31/2010	323,230	677,820

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Please provide the Company's actual short term debt balance for each month in 2001, 2002, 2003, 2004, and 2005.

RESPONSE

Below are the Company's actual short term debt balances at the end of each month for January 2001 through October 2005:

	2001	2002	2003	2004	2005
January	22,758,241.23	66,631,296.64	45,359,629.00	20,453,248.31	0.00
February	35,630,438.10	68,617,139.28	48,074,798.85	0.00	0.00
March	39,603,016.79	76,794,402.65	46,070,978.49	0.00	0.00
April	44,765,473.04	79,232,234.82	43,110,305.04	0.00	0.00
May	30,868,117.80	114,292,464.94	119,144,042.84	0.00	0.00
June	47,231,143.43	0.00	54,262,122.10	0.00	0.00
July	54,879,209.47	1,755,667.42	50,530,617.12	0.00	0.00
August	63,252,614.33	52,812,485.84	46,408,938.70	0.00	0.00
September	64,245,858.19	92,560,372.10	42,195,434.35	0.00	0.00
October	67,409,923.75	105,311,517.79	43,749,122.28	0.00	0.00
November	69,800,965.88	68,999,337.54	48,870,651.65	0.00	
December	66,199,838.61	23,386,093.77	38,095,519.39	0.00	

WITNESS: Errol K. Wagner

Kentucky Power Company

REQUEST

With regard to the Company's coal inventory, please provide the following information:

a. The response to KPSC-1-9, pages 15 and 16 of 114 show that the Days Supply on Hand for the Company's June 2005 coal inventory is 29.2 days. Please reconcile this to the corresponding Days Supply on Hand number of 26.0 days assumed by the Company in the calculations on Section V, S-4, page 28.

b. On Section V, S-4, page 28, the Company has assumed a Daily Burn Rate of 8,000.
1) Please provide the basis for this assumed number.
2) Provide the actual Daily Burn Rate for each month of the years 2002, 2003, 2004 and 2005 to date (i.e., through September or October, if available).

c. The Company has used an average cost per ton of $49.32 in the calculations on Section V, S-4, page 28. Please provide the equivalent actual cost per ton numbers for each month of the years 2002, 2003, 2004, and 2005 to date (i.e., through September or October, if available)

RESPONSE

a. The days supply value of 29.2 for June 2005 shown on Pages 15 and 16 of the Company's response to KPSC 1-9 uses the 12-month ended June 2005 Big Sandy average historical daily burn rate of 7,106 tons. The days supply value of 26 (rounded) for June 2005 shown in Section V, S-4, Page 28 uses the Coal Inventory Policy daily burn rate for Big Sandy of 8,000 tons.

b1. The daily burn rate of 8,000 tons is in accordance with the Coal Inventory Policy issued in September 2003. The Coal Inventory Policy is based on recommendations approved by Senior Management in August 2003.

b2. Please refer to the values provided in page 2 of this response. The daily burn rate provided is based on a twelve month rolling average.

c. Please refer to the values provided in page 3 of this response.

WITNESS: Errol K Wagner

Kentucky Power Company

Month/Yr	$/Ton
Oct-05	49.05
Sep-05	50.45
Aug-05	49.79
Jul-05	49.52
Jun-05	49.32
May-05	47.71
Apr-05	45.41
Mar-05	44.86
Feb-05	43.37
Jan-05	43.76
Dec-04	42.66
Nov-04	42.15
Oct-04	43.54
Sep-04	42.78
Aug-04	32.57
Jul-04	37.57
Jun-04	37.98
May-04	35.97
Apr-04	33.50
Mar-04	30.97
Feb-04	28.95
Jan-04	28.46
Dec-03	27.32
Nov-03	26.73
Oct-03	28.53
Sep-03	28.31
Aug-03	27.99
Jul-03	27.48
Jun-03	27.19
May-03	28.51
Apr-03	28.37
Mar-03	28.46
Feb-03	28.53
Jan-03	28.16
Dec-02	28.05
Nov-02	27.91
Oct-02	27.95
Sep-02	28.01
Aug-02	27.04
Jul-02	27.12
Jun-02	26.50
May-02	25.26
Apr-02	24.05
Mar-02	24.77
Feb-02	24.75
Jan-02	25.24

Kentucky Power Company

REQUEST

As shown on Section V, Schedule 15, the Company has proposed to reflect for base rate making purposes in this case the cash working capital associated with the Company's test year System Sales and Various Transmission Agreements of $127,146,896 (Total Electric Utility basis). In this regard, please provide the following information:

a. Confirm that, for purposes of setting the base rates in this case, the Company has removed this same System Sales and Various Transmission Agreement amount of $127,146,896 from the pro forma test year revenues (see Section V, S-6, p.1 and p.4), as well as from the pro forma test year O&M expenses (see Section V, Schedule 7, lines 16-17).

b. Explain why it is appropriate to reflect the cash working capital requirement of revenues and O&M expenses that have been removed for ratemaking purposes in this case.

RESPONSE

a. The Company did not remove from the test year System Sales and Various Transmission Agreement revenues in the amount of $127,146,896 nor did the Company remove from O&M expenses in a like amount.

The Company did reclassify the System Sales and Various Transmission Agreement revenues as expenses, thus reducing the O&M expense levels reflected in cost-of-service by the test year System Sales and Various Transmission Agreements revenues.

b. The O&M expense associated with these system sales transactions will still be incurred by the Company for the benefit of the ratepayers. Therefore, these expenses should still be included in the cash working capital calculation.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

The AFUDC-related Deferred FIT calculation in footnote 1 of Section V, S-4, page 19 assumes that the cost related to A/R Financing in the capital structure is tax-deductible. In this regard, please provide the following information:

a. Confirm the above-stated fact. If you disagree, explain your disagreement.

b. If confirmed, explain why the Company has not made the same assumption (i.e., treat the A/R Financing cost component of the proposed overall rate of return as a tax-deductible item in the calculation of the interest synchronization adjustment on Section V, S-4, page 20.

RESPONSE

a. We agree.

b. The A/R Financing had not been a part of the capital structure in preceding base rate cases, and thus was inadvertently overlooked in calculation of the interest synchronization adjustment. Please refer to page 2 of this response for a revised interest synchronization adjustment.

WITNESS: Errol K Wagner

Kentucky Power Company
Interest Synchronization
Test Year Twelve Months Ended 6/30/2005

Section V
Workpaper S-4
Page 20
Revised

Ln No (1)	Description (2)	PSC Jurisdictional Amount (3)
1	LTD, per Capitalization (Sch 3, C 12, Ln 1)	$482,392,123
2	LTD Rate (WP S-2, P 1, C 5, Ln 1)	5.70%
3	Annualized LTD Interest	$27,496,351
4	STD, per Capitalization (Sch 3, C 12, Ln 2)	$3,340,763
5	STD Rate (WP S-2, P 1, C 5, Ln 2)	3.34%
6	Annualized STD Interest	$111,581
7	A/R Financing, per Capitalization (Sch 3, C 12, Ln 3)	$30,052,250
8	A/R Financing Rate (WP S-2, P 1, C 5, Ln 3)	2.99%
9	Annualized A/R Financing Interest	$898,562
10	Total Annualized Interest (Ln 3 + Ln 6 + Ln 9)	$28,506,495
11	Interest per Books Net of ABFUDC	$29,914,717
12	Percent Retail (GP-TOT)	0.990
13	Retail Interest (Ln 11 x Ln 12)	$29,615,570
14	Decrease Interest Expense (Ln 10 - Ln 13)	($1,109,075)
15	SIT Rate	7.20%
16	SIT Adjustment (Ln 14 x Ln 15)	$79,853
17	Net Change for FIT (Ln 14 x Ln 16)	($1,029,222)
18	FIT Rate	35.00%
19	FIT Adjustment	$360,228

Witness: R.K. Wohnhas

Kentucky Power Company

REQUEST

The Company has proposed to reduce rate base by $129,276,197 (Total Company per Books) for net Accumulated Deferred Income Taxes. In this regard, please provide the following information:

a. A schedule showing all of the Total Company per Books ADIT components that make up the total net ADIT balance on the Company's books as of June 30, 2005.

b. For each of the Total Company per Books ADIT components to be provided in response to part a above, indicate which component has been used as a rate base deduction/addition in this case (the total of these ADIT components should add to $129,276,197) and which component has not been considered for ratemaking purposes in this case.

c. For each ADIT component that has not been considered for ratemaking purposes, provide a brief explanation for the reason.

RESPONSE

a. Please see attached page.

b. Please see attached for the ADIT components used in rate base.

c. Non-Utility ADIT components are not included in rate base because they are not part of Kentucky Power's regulated business. SFAS 109 SDIT components are not included for ratemaking purposes since the related SFAS 109 regulatory assets and liabilities are also not included for ratemaking. The sum of all the SFAS 109 accounts net to $0, so there is no impact on the rate base.

WITNESS: Errol K Wagner

Kentucky Power Company
Accumulated Deferred Income Taxes
30-Jun-05

	Total	Non-Utility	Rate Base	SFAS 109
1823301 SFAS 109 Flow Thru Defd FIT	79,419,328			79,419,328
1823302 SFAS 109 Flow Thru Defrd SIT	28,340,000			28,340,000
1901001 Accum Deferred FIT - Other	16,448,032		16,448,032	
1902001 Accum Defd FIT - Oth Inc & Ded	874,031	874,031		
1903001 Acc Dfd FIT - FAS109 Flow Thru	13,223,791			13,223,791
1904001 Accum Dfd FIT - FAS 109 Excess	959,320			959,320
2811001 Acc Dfd FIT - Accel Amort Prop	(21,376,601)		(21,376,601)	
2821001 Accum Defd FIT - Utility Prop	(110,227,605)		(110,227,605)	
2823001 Acc Dfrd FIT FAS 109 Flow Thru	(51,622,563)			(51,622,563)
2824001 Acc Dfrd FIT - SFAS 109 Excess	1,781,594			1,781,594
2831001 Accum Deferred FIT - Other	(14,120,023)		(14,120,023)	
2832001 Accum Dfrd FIT - Oth Inc & Ded	(2,491,785)	(2,491,785)		
2833001 Acc Dfd FIT FAS 109 Flow Thru	(37,715,764)			(37,715,764)
2833002 Acc Dfrd SIT FAS 109 Flow Thru	(28,340,000)			(28,340,000)
2543001 SFAS 109 Flow Thru Defd FIT	(3,304,792)			(3,304,792)
2544001 SFAS 109 Exces Deferred FIT	(2,740,914)			(2,740,914)
Total	(130,893,951)	(1,617,754)	(129,276,196)	(0)

Kentucky Power Company

REQUEST

The response to KPSC-1-12, page 17 shows Other Non-Current Liability balances of $4,625,798 for Account 2283005 SFAS 112 Post employment Benefits and $7,124,088 for Account 2283006 SFAS 87 Pensions. In this regard, please provide the following information:

a. Provide a description of the nature and purpose of these liability balances and explain how these balances were accumulated.

b. Explain whether these liability balances are associated with above-the-line SFAS 112 and SFAS 87 costs.

c. Explain why the Company has not proposed to treat these liability balances as reductions from rate base.

RESPONSE

a. Account 2283006 – SFAS 87 Pensions
This account is used to accumulate the unfunded balance related to the AEP Qualified Pension Plan, as calculated by our actuary. This account balance changes are due to the following items:
Monthly pension accrual – typically a credit to this accrual account and a debit to the pension expense account (9260003), the amount is calculated by our actuary. This expense account is an above the line account.
Contributions – when the company contributes to the pension fund (managed by BONY) the accrual account balance is decreased, the contribution amount is calculated by our actuary. Contributions do not impact the income statement.
AOCI – this account is adjusted each year-end for the Accumulated Other Comprehensive Income (AOCI) calculation from our actuary. The other side of this entry is recorded to a deferred Federal income tax account and to an equity account. AOCI entries do not impact the income statement.

Account 2283005 – SFAS 112 Post employment Benefits
This account is used to accumulate the OPEB balance related to the AEP OPEB Plan, as calculated by our actuary. This account balance changes are due to the following items Monthly accrual – typically a credit to this accrual account and a debit to a regulated asset account, 1823007, the amount is calculated by our actuary. These entries do not impact the income statement.

b. See response a. above.

c. Consistent with past Kentucky Power rate base calculations, the Company does not include balances in Account 228 as a rate base reduction.

WITNESS: Errol K Wagner and Ranie K Wohnhas

Kentucky Power Company

REQUEST

The Company has removed $127,146,896 worth of test year System Sales and Various Transmission Agreement revenues for ratemaking purposes in this case and has removed the same $127,146,896 from the test year per books operation and maintenance expenses. In this regard, please provide the following information:

a. Verify that the impact on the Company's proposed pro forma test year operating income is $0. If not, explain what the correct test year operating income impact is.

b. Explain the reasons why the Company has made these revenue and O&M expense adjustments.

c. Describe the nature of each of the Various Transmission Agreements in revenue account 456 shown on Section V, S-6, page 2.

RESPONSE

a. The impact on the Company's pro forma test year operating income is to reduce operating income by the margins associated with system sales.

b. The reason the Company reclassified off system sales revenue was to reduce the test year cost of service by the margins associated with system sales.

c. Account No. 4560013 Transmission Services (Various Trans, Agreement) records revenues associated with transmission services reserved by third parties. This does not include the transmission component associated with system sales transactions.

Account No. 4560014 Transmission Services (Various Trans. Agreement) is used to record revenues associated with ancillary services.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

For each of the years 2001, 2002, 2003 and 2004, provide a worksheet showing a side-by-side comparison of the actual revenues for the Other Operating Revenue accounts 411, 450, 451, 454 and 456 in the same format and detail as per the response to KPSC-1-12, pages 3 and 4 of 19.

RESPONSE

Please see attached page 2 for the requested information for the years 2001, 2002, 2003 and 2004.

WITNESS: Errol K Wagner and Ranie K Wohnhas

ACCOUNT NUMBER	DESCRIPTION	12 Months Ended 2001	12 Months Ended 2002	12 Months Ended 2003	12 Months Ended 2004
4118000	Gain Disposition of Allowances	4,206,777.04	5,569,345.84	1,243,958.98	2,882,507.73
4119000	Loss Disposition of Allowances	(45,558.79)	0.00	(1,267.41)	(450.96)
4500000	Forfeited Discounts	1,473,535.57	1,279,331.55	1,436,904.61	1,413,521.55
4510001	Misc Service Rev - Nonaffil	275,825.81	471,956.09	48,141.86	292,627.07
4510002	Misc Service Rev - ABD	487,509.72	0.00	0.00	0.00
4540001	Rent From Elect Property - Af	1,543,380.00	879,072.00	550,236.00	403,008.60
4540002	Rent From Elect Property-NAC	2,158,208.64	2,678,560.07	2,861,744.14	2,586,193.97
4540004	Rent From Elect Property-ABD NonAffil	4,140.00	29,298.00	73,734.00	76,088.00
4560007	Oth Elect Rev - DSM Program	1,415,562.65	1,400,322.15	1,491,442.75	1,681,131.10
4560012	Oth Elect Rev - Nonaffiliated	13,298.56	9,707.37	106,207.00	0.00
4560013	Oth Elect Rev-Trans-Nonaffil	10,601,294.00	10,437,286.40	10,271,254.80	7,828,874.36
4560014	Oth Elect Revenues - Ancillary	962,647.00	991,994.00	924,683.27	700,544.83
4560015	Other Electric Revenues - ABD	236,746.42	1,008,224.40	1,664,256.61	2,357,649.46
4560016	Financial Trading Rev-Unreal	0.00	0.00	0.00	0.00
4560017	Other Electric Revenues -Trans Affil	714,501.87	0.00	0.00	0.00
4560041	Miscellaneous Revenue-NonAffil	0.00	0.00	0.00	34,488.31
4560046	Unrealized Income of 98-10	0.00	0.00	0.00	0.00
4560049	Merch Generation Finan -Realzd	0.00	0.00	(103,793.24)	(321,668.87)
4560050	Oth Elec Rev-Coal Trd Rlzd G-L	0.00	0.00	0.00	5,180,162.50
4560052	Realized Spark/MGG Transfer	0.00	0.00	0.00	(0.00)
4560058	PJM NITS Revenue-NonAff.	0.00	0.00	0.00	1,005,642.70
4560060	PJM Pt2Pt Trans.Rev.-NonAff.	0.00	0.00	0.00	711,066.81
4560062	PJM TO Admin. Rev..-NonAff.	0.00	0.00	0.00	58,906.81
4560064	Buckeye Admin. Fee Revenue	0.00	0.00	0.00	26,951.48
4560067	OthElecRev Phys Coal Purch Exp	0.00	0.00	0.00	(5,125,866.24)
4560068	SECA Transmission Revenue	0.00	0.00	0.00	823,904.24

Kentucky Power Company

REQUEST

Please provide a listing and description of any large commercial, industrial, or special contract customers that were or are expected to be added as customers of KPCo or were lost or are expected to be lost as customers of KPCo that have become known since the time the Company prepared its filing in this case and that, therefore, are not reflected in the pro forma adjusted test year sales and revenues. If so, provide full details and a description of how the annualization of such changes would impact the test period revenue requirement.

RESPONSE

Upon review, KPCo found no large commercial, industrial, or special contract customers added or expected to be lost since the end of the test year.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Please provide KPCo's FERC Form 1 reports for 2002 and 2003.

RESPONSE

See the Company's response to Item No. 154 to the Attorney General's 1st Set of data requests.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

With regard to the Company's payroll distribution, please provide the following information:

a. In the same format and detail as shown on Section V, S-7, page 3, provide the actual payroll distribution dollars and percentages for each of the years 2000 through 2004 and reconcile this information to the corresponding payroll distribution data shown on page 355 of the Company's FERC Form 1 reports for 2002 through 2004.

b. In the same format and detail as per pages 354 and 355 of the Company's FERC Form 1 report, provide the actual payroll distribution data for the test year ended 6/30/05.

c. Reconcile the test year labor O&M expenses of $20,137,863 and O&M ratio of 67.65% to the corresponding test year labor O&M expenses of $$18,607,000 and O&M ratio of 62.51% shown on the response to KPSC-1-23c, page 17.

RESPONSE

a. See attached page 2 for the actual payroll distribution dollars and percentages for each of the years 2000 through 2004. The information is taken from the FERC Form 1 page 355 as follows: O&M from line 62, column d; Construction from line 68, column d; retirement from line 73, column d; and all other from line 95, column d.

b. See attached pages 3 and 4 for the actual payroll distribution data for the test year ended 6/30/05 in the format of pages 354 and 355 of the FERC Form 1 report.

c. The $20,137,863 includes amounts cleared to O&M from accounts 152, 163, 184, 186, 188, and 242 whereas in accordance with FERC Form 1 reporting, the $18,607,000 includes amounts cleared from accounts 163 and 184.

WITNESS: Errol K Wagner

LINE NO. (1)	FUNCTION (2)	12 MONTHS ENDED 12/31/2000 TOTAL (3)	Percent (4)	12 MONTHS ENDED 12/31/2001 TOTAL (5)	Percent (6)	12 MONTHS ENDED 12/31/2002 TOTAL (7)	Percent (8)	12 MONTHS ENDED 12/31/2003 TOTAL (9)	Percent (10)	12 MONTHS ENDED 12/31/2004 TOTAL (11)	Percent (12)
1	Operation & Maintenance	$20,738,914	63.85%	$20,618,677	63.59%	$17,727,904	56.57%	$18,778,627	64.82%	$18,556,838	65.18%
2	Construction	7,587,315	23.36%	7,216,124	22.26%	8,021,281	25.60%	7,864,383	27.14%	7,186,443	25.24%
3	Retirement	1,039,543	3.20%	1,192,748	3.68%	1,346,875	4.30%	1,328,392	4.59%	1,273,744	4.47%
4	All Other	3,117,251	9.59%	3,396,002	10.47%	4,242,478	13.53%	1,000,797	3.45%	1,452,148	5.11%
5	Total	$32,483,023	100.00%	$32,423,551	100.00%	$31,338,538	100.00%	$28,972,199	100.00%	$28,469,173	100.00%

Payroll Distribution for test year ended 6/30/05

Line No.	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll charged for Clearing Accounts (c)	Total (d)
1	Electric			
2	Operation			
3	Production	4,355,237		
4	Transmission	406,059		
5	Distribution	752,671		
6	Customer Accounts	1,620,383		
7	Customer Service and Informational	464,174		
8	Sales	-		
9	Administrative and General	951,515		
10	TOTAL Operation (enter Total of lines 3 thru 9)	8,550,039		
11	Maintenance			
12	Production	3,398,792		
13	Transmission	840,937		
14	Distribution	3,911,414		
15	Administrative and General	670,357		
16	TOTAL Maint. (enter Total of lines 12 thru 15)	8,821,500		
17	Total Operation and Maintenance			
18	Production (Enter Total of lines 3 and 12)	7,754,029		
19	Transmission (Enter Total of lines 4 and 13)	1,246,996		
20	Distribution (Enter Total of lines 5 and 14)	4,664,085		
21	Customer Accounts (Transcribe from line 6)	1,620,383		
22	Customer Service and Informational (Transcribe from line 7)	464,174		
23	Sales (Transcribe from line 8)	-		
24	Administrative and General (Enter Total of lines 9 and 15)	1,621,872		
25	TOTAL Oper. And Maint. (Total of lines 18 thru 24)	17,371,539	1,235,377	18,606,916
26	Gas			
27	Operation			
28	Production - Manufactured Gas			
29	Production - Nat. Gas (Including Expl. And Dev.)			
30	Other Gas Supply			
31	Storage, LNG Terminating and Processing			
32	Transmission			
33	Distribution			
34	Customer Accounts			
35	Customer Service and Informational			
36	Sales			
37	Administrative and General			
38	TOTAL Operation (Enter Total of lines 28 thru 37)			
39	Maintenance			
40	Production - Manufactured Gas			
41	Procudtion - Nat. Gas (Including Expl. And Dev.)			
42	Other Gas Supply			
43	Storage, LNG Terminating and Processing			
44	Transmission			
45	Distribution			
46	Administrative and General			
47	TOTAL Maint. (enter Total of lines 40 thru 46)			

Payroll Distribution for test year ended 6/30/05

Line No.	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll charged for Clearing Accounts (c)	Total (d)
48	Total Operation and Maintenance			
49	Production - Manufactured Gas (Enter Total of lines 28 and 40)			
50	Production - Natural Gas (Including Expl. And Dev.) (Total lines 29,			
51	Other Gas Supply (Enter Total of lines 30 and 42)			
52	Storage, LNG Terminating and Processing (Total of lines 3 thru			
53	Transmission (Lines 32 and 44)			
54	Distribution (Lines 33 and 45)			
55	Customer Accounts (Line 34)			
56	Customer Service and Informational (Line 35)			
57	Sales (Line 36)			
58	Administrative and General (Lines 37 and 46)			
59	TOTAL Operation and Maint. (Total of lines 49 thru 58)			
60	Other Utility Departments			
61	Operation and Maintenance			
62	TOTAL All Utility Dept. (Total of lines 25, 59, and 61)	17,371,539	1,235,377	18,606,916
63	Utility Plant			
64	Construction (By Utility Departments)			
65	Electric Plant	7,501,864	533,495	8,035,359
66	Gas Plant			
67	Other			
68	TOTAL Construction (Total of lines 65 thru 67)	7,501,864	533,495	8,035,359
69	Plant Removal (By Utility Departments)			
70	Electric Plant	1,432,616	101,880	1,534,496
71	Gas Plant			
72	Other			
73	TOTAL Plant Removal (Total of lines 70 thru 72)	1,432,616	101,880	1,534,496
74	Other Accounts (Specify)			
75	152 - Fuel Stock Expense Undistributed	898,288		898,288
76	163 - Stores Expense Undistributed	1,122,693	(1,122,693)	-
77	184 - Clearing Accounts	748,059	(748,059)	-
78	185 - ODD Temporary Facilities	29,250		29,250
79	186 - Misc Deferred Debits	653,745		653,745
80	188 - Research & Development	914		914
81	242 - Misc Current & Accrued Liabilities	(22,000)		(22,000)
82	426 - Donations	30,032		30,032
83				
84				
85				
86				
87				
88				
89				
90				
91				
92				
93				
94				
95	Total Other Accounts	3,460,981	(1,870,752)	1,590,229
96	TOTAL SALARIES AND WAGES	29,767,000	-	29,767,000

Kentucky Power Company

REQUEST

With regard to the employee and wage/salary data in the response to KPSC-1-39, page 3, please provide the following information:

a. Reconcile the total wages/salaries for each of the years 2002 through 2004 and for the test year shown on page 3 of 3 to the corresponding total wages/salaries for these same years shown in the response to KPSC-1-23c, page 17.

b. Explain the decrease from 470 total employees in 2000 to 350 total employees in the test year.

RESPONSE

a. The Company's response to KPSC-1st Set, Item No. 23c includes fringe benefits. The data shown is for calendar years ending December 31, 2002, 2003 and 2004. The data shown for the test year is for the 12 months ending June 30, 2005.

The Company's response to KPSC-1st Set, Item No. 39, page 3 of 3 is strictly the wages paid and does not include fringe benefits. All the data shown is for a 12 month period ending June 30 of each respective year, i.e. 2000 through 2005.

b. The decrease in the number of employees is a result of corporate restructuring and reorganization.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Please provide a detailed description of all of the incentive compensation programs offered by KPCo to its employees. At a minimum, this description should provide (1) the major terms of each program, (2) the types of awards paid out under each program, (3) the performance criteria and types of goals to be reached to trigger awards under each program, and (4) types of employees eligible to participate in each program. In addition, provide copies of actual source documentation available for each of these incentive compensation programs.

RESPONSE

Kentucky employees are eligible for three incentive compensation plans. The first is the Incentive Compensation Plan, which is separated into three functional areas (Generation, Energy Delivery and General Services), the second is the Safety Focus Plan and the third is the Long Term Incentive Plan. Please see pages 2 through 39 of this response for information about the plans.

WITNESS: Timothy C Mosher

2004 Incentive Compensation Plan

Generation

Introduction

The AEP Generation (excluding Nuclear Generation, RMR plants, USTI and mining operations) Incentive Compensation Plan (ICP) has undergone major key structural changes. The plan has moved from a pure financially based approach to a "Balanced Scorecard" approach.

Our plan is balanced across four performance quadrants: Market, Financial, Internal Business and Organization. The Market and Financial quadrants provide scoring based on incremental value–added created by our organization above the Corporate Financial Plan (CFP). The Internal Business and Organization quadrants provide scoring on measures that are not financially based, but are important to the success of our organization.

Safety measures are included in a separate plan to emphasize Safety performance. Safety comes first and a separate "Safety Focus" plan will continue to address and reward excellent safety performance in 2004. A glossary of discretionary performance criterion on "Safety", and our other Operating Principles has been added to Exhibit A of this document.

The key message of our plan is that our organization's success is driven by both financial and non-financial performance and we have defined a plan to reward our organization based on how well we perform against these measures.

The 2004 plan is based on many of the same measures as 2003, but there are new measures that were not included in recent plans', these are highlighted in **Blue** below. The 2004 measures are summarized below, with more detail provided later in this document.

Market Quadrant
- Commercial Availability Dollars
- Dispatch Accuracy
- **NOx Performance**

Financial Quadrant
- **Base-load Heat Rate**
- O&M Cost Adherence (includes fuel handling)
- **Capital Cost Adherence**

Internal Business
- **Opacity Exceedances**
- **Spills**
- **Wastewater Exceptions**

Organization
- **Initiative Schedule Performance**
- **SCR/FGD Schedule Adherence**

The 2004 Plan

The objectives of the 2004 ICP are to:

1. ***Provide an incentive for performance that creates value for AEP's shareholders;***
2. ***Align our performance with the realities of the markets;***
3. ***Align the interests of all our employees to reinforce the need for teamwork in order to overcome technical issues and achieve success in the marketplace; and***
4. ***Provide our employees with meaningful financial rewards when targeted performance levels are achieved.***

The 2004 ICP Business unit performance has been designed as a "Balanced Scorecard" plan, which is a major change from recent plans. Overall the Business Unit performance remains 75% of the plan for the majority of the participants with Corporate performance representing the remaining 25% of the plan. Please see the **2004 Generation ICP Overview** document that is posted on the Generation website for additional information of how the plan works. The major elements of the plan are summarized below:

- The Corporate Component remains to more closely link business unit rewards to overall corporate performance and to highlight the primary mission and purpose that all business units share in this objective, which is ***creating value for AEP's shareholders***. For most employees the Corporate Component measure will be AEP's earnings per share (EPS) relative to a target approved by the Board of Directors. The Corporate Component by salary grade for our 2004 ICP plan will be:

Salary Grade	*Weighting*	*Performance Measure*
38-42	*50%*	*Senior Officer Incentive Plan (SOIP)*
All others	*25%*	*Earnings Per Share (EPS)*

  Therefore the results from the business unit performance will account for 50% to 75% of the ICP payout based on the table above. ***Specific targets for the EPS and the SOIP components will be provided separately.***

- The employee groups under the ICP have been realigned consistent with the guidelines established by the Office of the Chair (OOC) and the Human Resources Committee of the AEP Board of Directors (HRC). The 2004 employee Groups and payout pool targets and maximums are shown on page 6.

- ***The 2004 ICP Payout Pool is budgeted for a 1.0 payout. Funding for Payout Pool's from 1.0 to 2.0 are funded from the incremental value provided to the corporation from our performance above 1.0.***

- ***Each Employee Group will have a target payout level, 1.0, and a maximum payout level, 2.0, as defined in the table on page 6 of this document. Performance levels other that 1.0 and 2.0 will be established based on a straight interpolation up to the maximum payout percentages.***

  Individual payout awards to employees in Groups 2-6 are fully discretionary. Employees in these groups could receive payouts from 0% to the maximum allowable payout percentage irrespective of the group average, provided the total of payouts does not exceed the available funding. The criteria to be used in determining the discretionary nature of individual awards are provided on Exhibit A of this document.

The 2004 ICP Metrics are briefly defined below, the complete metric descriptions will soon be available on the Generation Web page titled **2004 Generation ICP Metrics**: The table below summarizes the 2004 measures and targets:

Performance Quadrants, Measures, And Targets -- 2004 ICP

Quadrant & Metric				Quadrant & Metric			
Market	0.0 Target	1.0 Target	2.0 Target	**Internal Business**	0.0 Target	1.0 Target	2.0 Target
Fossil/Hydro Commercial Availability $$				Opacity Exceedances	8	4	0
Dispatch Accuracy $$				Spills	12	6	0
NOx Performance $$				Wastewater Exceptions	20	10	0
Financial				**Organization**			
Base-load Heat Rate $$				Initiative Sched. Perf.	40	25	0
O&M Cost Adherence $$				SCR/FGD Sched. Adhr.	80%	90%	100%
Capital Cost Adherence $$							
Total Mkt. & Financial $$ (Combined $$)	$0	$95,000,000	$190,000,000				

Market Quadrant

Commercial Availability:

- ***Generally, there is no conceptual change from the 2003 Plan.***
- Individual "benchmark" unavailability continues to be set for <u>each</u> generating unit, based on its historical performance and 2004 expectations due to maintenance initiatives, budget reductions, outage deferrals, etc.
- As with the 2003 Generation ICP, individual generating units only get credit if they are available for production above their respective unit target levels. Unit availability at any point in time that is above (or below) the unit's target will be credited (or charged) based on the anticipated day-ahead market price of energy… less the cost to dispatch the unit. Market prices will remain capped at $1,000/MWh.

Dispatch Accuracy

- ***Currently, there are no changes from the 2003 Plan; however, consideration is being given to the addition of an AGC measure to the current measures of Ramping Efficiency and Steady State Operations. The specifics around this measure are still being designed. The general idea is to develop a measure to value each units ability to operate on AGC in accordance with its' design parameters. The current plan is to simulate this measure prior to implementation. All personnel will be notified prior to*** *the implementation of this proposed change to Dispatch Accuracy. Power Generation units will be assessed value or cost based on how well each unit is dispatching on a real-time basis versus formal electronic dispatch instructions issued by the Generation Coordinator.*

NOx Performance

- ***This is a new measure for 2004. This measure was added to emphasize the importance of NOx Performance and its impact to corporate earnings. Each unit will have a target rate or curve for NOx emissions. This calculation will be made on an hourly basis and valued based on a standard NOx price. This measure is applicable to East Operated Coal Plants and will be monitored during the 2004 Ozone Season.***

Financial Quadrant

Base-load Heat Rate:

- ***This is similar to the Fuel Efficiency measure that was used in previous plans, but for 2004 it will only include our Base-load units.*** The fuel efficiency/heat rate "benchmarks" will continue to be established based on unit-specific I/O curves built from the last three years' performance history and each individual units' designed heat rate.
- ***The Base-load units are defined as West Coal units, East Supercritical units, and East Sub-Critical units with a maximum target NOx rate of 0.35lb/MMBtu or less.***

O&M Cost Adherence

- ***This is an updated version of the Cost Containment measure included in the 2003 plan. It includes non-fuel O&M and Fuel Handling as in prior years and also include Labor Fringes, non-productive costs and Service Level Agreement (SLA) Transportation charge.*** Savings (or overruns) versus each plant's and department's 2004 Revised Budget are credited (or deducted) from the Scorecard on a dollar-for-dollar basis.
- All Fossil/Hydro, ET&ES, CT&D and Business Services Benefiting Locations will be included, except for "External" Benefiting Locations, Nuclear Benefiting Locations and External Departments (e.g. non-AEP Plant Ownership Departments).

Capital Cost Adherence

- ***This is a new measure for 2004. This measure will track actual Install and Removal expenditures compared to the 2004 Revised Budget. This measure is project driven not total budget driven. Projects that will be included in this measure, generally "CI's", will contribute or deduct from the Scorecard based on the variance of actual cost as compared to the budget. If a Project is cut from the budget, it will have no impact on this measure. The remaining balance of the capital and removal budget, Small Projects (including Production Plant Blankets), will also be monitored. If the aggregate actual cost of these Small Projects exceed budget, this overrun will be deducted from the Project driven contribution for this measure. If the aggregate actual cost of these Small Projects is less than budget, no adjustment will be made.***

Internal Business Quadrant

Opacity Exceedances

- ***This is a new measure for 2004. This measure will track the number of stacks with greater than 2% annual operating time with excess opacity, including startups and shutdowns.***

Oil and Chemical Spills

- ***This is a new measure for 2004. This measure will track the number of reportable and preventable oil and chemical spills or spills that were reportable and non-preventable, but not contained, reported or cleaned up in a reasonable or required time frame.***

Wastewater Exceptions

- ***This is a new measure for 2004. This measure will track the number of preventable operating water permit exceptions as determined by Environmental Services.***

Organization Quadrant

Initiative Schedule Adherence

- ***This is a new measure for 2004. Key project milestones will be identified for all Initiatives identified in the 2004 Generation Business Plan. The completion of milestones will be tracked and reported for this measure.***

SCR/Scrubber Schedule Adherence

- ***This is a new measure for 2004. Key project milestones will be identified for all SCR/Scrubber projects active in 2004. The completion of milestones will be tracked and reported for this measure.***

Complete metric descriptions will soon be available on the Generation Web page in a document titled **2004 Generation ICP Metrics**:

Employee Payout Groups

As in 2003, the 2004 ICP has established potential payout levels for separate distinct employee "groups". The following graphic illustrates target and maximum payout levels for each group and individual participants, a description of those employees in each group, and the method to be employed for determining and individual payouts.

Group	Description	Target GROUP Payout Potential - 1.0 (As % of Base-ICP Earnings)	Maximum GROUP Payout Potential - 2.0 (As % of Base-ICP Earnings)	Individual Payout Approach	Maximum INDIVIDUAL Payout Potential (As % of Base-ICP Earnings)
1	Non-Exempts (Hourly & Salaried)	5%	10%	PRORATA %	10%
2	Exempt Employees (Grades 1 through 7)	5%	10%	Fully DISCRETIONARY	10%
3	Exempt Employees (Grades 8 through 12)	7%	14%	Fully DISCRETIONARY	14%
4	Exempt Employees (Grades 13 through 20)	10%	20%	Fully DISCRETIONARY	20%
5	Exempt Employees (Grades 21 through 29)	15%	30%	Fully DISCRETIONARY	30%
6	Sr./Exec. Managers (Grades 30 and above)	25%-50%	50%-100%	Fully DISCRETIONARY	50%-100%

Plan Administrator: A Plan Committee comprised of the members of AEP's Office of the Chairman will administer the Generation ICP. The Plan Committee may delegate day-to-day authority to administer the Plan, as they deem appropriate. The Plan Committee's interpretations of the Plan provisions are conclusive and binding on all Participants.

The Plan Committee has sole authority to amend or terminate the Plan and may do so at any time, for any reason, either with or without notice. The Plan Committee may exercise this authority to adopt, delete, modify or adjust performance objectives, metrics and weights to the extent that the Plan Committee determines that changes in AEP's structure or other significant business situations would produce performance results for a Plan Year that are not reflective of the underlying economics and profitability of AEP or the Generation organizations. The Plan Committee may also modify the eligibility criteria for the Plan and add or delete Participants.

Plan Year: A "Plan Year" begins on January 1st and ends on December 31st of each year for which the plan is in effect.

Participation: All full-time and regular part-time AEP Generation employees (excluding Nuclear Generation and Corporate Technology Development employees) who are actively employed during the plan year will generally be Participants in the ICP for the 2004 Plan Year except:

1. Employees participating in any other **annual** AEP incentive plan,
2. Employees participating in any other plan or agreement that explicitly excludes their participation in this ICP,
3. Employees represented by unions at locations who decline the opportunity to participate in this ICP or all similar incentive plans,
4. Temporary employees and contract workers, and
5. Employees hired by AEP on or after December 1 of such Plan Year.

Participation in the Generation ICP in any Plan Year shall not be viewed as conferring any right to continued employment or to continued participation in the Plan for any subsequent Plan Year.

Award Eligibility: All Participants are eligible to receive an award for Plan Year if they are **actively** employed at the end of such Plan Year.

If a Participant transfers during the Plan Year to a position in another AEP business unit or a position within AEP Generation that is ineligible to participate in the plan, then such Participant will be ineligible to receive an award for such Plan Year. Their incentive award, if any, will be determined by the business unit or incentive plan in which they participate on the last day of such Plan Year.

Termination Due to Death, Retirement or Reorganization: Participants are **eligible** for an award if their employment with AEP is terminated during the Plan Year due to death, Retirement, or involuntary termination as the direct result of reorganization, restructuring or downsizing.

For the purposes of the Plan "Retirement" is defined as termination of employment for any reason after the Participant attains at least age 55 and five years of AEP service.

Plan Eligible Earnings:

ICP Eligible Earnings include the following -

Regular Earnings – Straight Rate
Paid Vacation
Paid Personal Days Off
Sick Pay (Non-occupational & Occupational)
Paid Jury Duty
Paid Death In Family
Paid Rest Period
Inclement Weather Pay
Lump Sum Merit Increase
Grievance Settlement for Wages
Overtime - - Nonexempt & Exempt
Lump Sum General Increase
Shift Premium
Sunday Premium

Earnings attributable to a leave of absence, regardless of earnings type, are not considered eligible for plan purposes.

Long-Term Disability: Employees who become inactive during the Plan Year due to participation in an AEP long-term disability plan will be eligible to receive an award for that year to the extent that they have eligible earnings for such Plan Year. Note that long-term disability benefits are not ICP eligible earnings.

Award Payment: Payment of earned awards will be made as soon as practicable following the calculation of performance results for the Plan Year and completion of the award approval process. Award payments are typically made during the first quarter of the following year.

Exhibit A

Exempt Employees
Summary of Discretionary Performance Criteria

The Generation Management team embraces principles that emphasize safety, ethical conduct, accountability & recognition, teamwork & cooperation, continuous improvement; employee concerns and a focus on shareholder value. As an organization, we want to be the premier operator of a diversified fleet of power generating assets with our biggest challenges being: meeting our environmental obligations; reliably operating our low cost generating units to meet our customer expectations and maximize our earnings potential; and addressing workforce issues as our workforce moves rapidly towards retirement. In pursuit of these principles and solutions to these challenges, discretionary awards are based on the following performance criteria.

Safety & Health: Safety work rules and regulations are followed. Accountable not only for own safety and health, but also for the safety and health for all those working nearby. Shares in a common objective to be personally responsible to do the job safely.

Ethical Conduct: Represents AEP with the very highest standard of ethical conduct. Models a high standard of common honesty and decent human behavior. Integrity is exhibited in all decisions and actions.

Shareholder Value: Achieves business results that build shareholder value and contributes to earnings per share.

Employee Oriented: Promotes an environment where colleagues are valued, respected and challenged to improve. Motivates colleagues by example to achieve operational excellence. Teaches, coaches and mentors others. Supports workforce diversity and creates an inclusive workplace environment.

Accountability & Recognition: Accepts responsibility and accountability for decisions and results. Understands that there are consequences for not delivering performance that is expected or has been committed to. Recognizes that performance must support safe and efficient generation.

Teamwork & Cooperation: Contributes to a work environment that is conducive to teamwork and cooperation. Promotes open, honest, face-to-face communication. Encourages expression of opinions and constructive controversy.

Continuous Improvement: Contributes to problem solving and improvement initiatives. As opportunities arise, gathers outside perspectives and remains open to new ideas. Looks for opportunities to apply new and efficient solutions.

Note:
The performance criteria listed above are general guidelines. Additional criteria may be used at the discretion of respective departmental leadership. If additional criteria are developed they will be communicated separately.

2004 Energy Delivery Companywide Incentive Plan

Introduction

As in past years, the Energy Delivery Companywide Incentive Plan (EDCIP) is designed to encourage and reward the following behaviors:

- Managing our costs and resources
- Focusing on customer service and satisfaction
- Supporting the business units in their efforts to succeed
- Contributing to corporate financial success

Changes for 2004

- Incentive payout is discretionary for all exempt employees, as well as non-exempt supervisors. This change allows for flexibility to better reflect both positive and negative performance and to provide more direct incentive to employees to achieve Energy Delivery's and AEP's performance objectives.
- Target payout opportunities for most exempt employees have been increased to better reflect the current market for talent.
- The weighting between Energy Delivery financial and operating measures was shifted to a 50/50 balance to increase the emphasis on service quality measures, and to better balance the financial and service quality objectives.
- The reliability measures for SAIFI and CAIDI were changed with the use of new standard definitions developed by the Institute of Electrical and Electronics Engineers (IEEE), to provide better insight into service reliability levels.

2004 Energy Delivery Companywide Incentive Plan

Performance Measures and Scales

Each performance measure scale ranges from 0 – 2.0 for all employees. The following section outlines how the performance measures work.

1. Corporate Earnings Per Share	**Weight**
a) **Corporate Earnings Per Share** (to be provided)	**25%**
OR, for employees in positions at salary grades 38-42,	
b) **Senior Officer Incentive Plan** (SOIP)	**50%**

SOIP Measures:

• Earnings Per Share	50%
• O&M expense vs. budget	15%
• Diversity	10%
• Environmental	10%
• Safety – Recordables	7.5%
• Safety – Severity	7.5%

2. Energy Delivery Results	**Weight**	
	SOIP	**All Other**
a) **Financial Measures**	**25.3%**	**38%**
O&M Expense	13.3%	20%
Capital Expenditures	8%	12%
3rd Party Margins	2%	3%
Transmission Revenue	2%	3%
b) **Operating Measures**	**24.7%**	**37%**
Reliability SAIFI	8.35%	12.5%
Reliability CAIDI	8.35%	12.5%
Commission Complaints	6%	9%
Customer Satisfaction	2%	3%