

**BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION**

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PUBLIC SERVICE  
COMMISSION

**IN THE MATTER OF:**

**GENERAL ADJUSTMENT OF ELECTRIC )  
RATES OF KENTUCKY POWER COMPANY )   CASE NO. 2005 -00341**

**KENTUCKY POWER COMPANY  
RESPONSES TO ATTORNEY GENERAL'S  
FIRST SET DATA REQUEST**

**VOLUME 2 OF 2**

**November 29, 2005**



**Kentucky Power Company**

**REQUEST**

Provide explanatory examples of the debits and credits relating to the accounts for which depreciation is charged to clearing accounts.

**RESPONSE**

During the test year ended June 30, 2005, the Company did not charge any depreciation to clearing accounts.

**WITNESS:** Ranie K Wohnhas



**Kentucky Power Company**

**REQUEST**

Provide a copy of the Company's capitalization policy.

**RESPONSE**

Please see the attached pages.

**WITNESS:** Errol K Wagner



## Property Accounting Policy/Procedure

<b>Policy/Procedure Title</b>	Capitalization Policy	<b>Date</b>	December 23, 2004
<b>Owner:</b>	Property Accounting	<b>Status:</b> (Draft, Under Review, Approved)	Approved

### Purpose

The purpose of this corporate procedure is to formalize guidelines for classifying expenditures as capital for AEP's utility subsidiaries.

Assets held in the United Kingdom and the following AEP investment/non-regulated companies have their own capitalization policy: MEMCO, IPP's, Wind Farms, ProServ (winding down operations), United Sciences Testing, DECCO and Communications.

### Procedure

#### General:

AEP's utility companies follow Federal Energy Regulatory (FERC) guidelines to determine when expenditures should be classified as capital and considered additions or retirements of electric plant. FERC guidelines state that all property shall be considered as consisting of retirement units and minor items of property.

FERC guidelines also dictate that each utility shall use a list of retirement units and provide some discretion in permitting each utility to define the units.

The assistant controller must approve all deviations from this policy.

#### Retirement Units:

Retirement Units are items of plant that are capitalized when added to electric plant and retired when removed from electric plant. Retirement units are generally costly and long-lived. In addition, when new retirement units are established, they should not be an integral part of an existing retirement unit.

With the exception of transmission and distribution equipment retirement units, AEP does not permit capitalization of a retirement unit that has a per unit material value of less than \$1,000. (Transmission and distribution equipment does not have a dollar limit for capitalization but instead uses the retirement unit designation to determine when to capitalize property additions.)

Capital Software projects must have a value of at least \$1,000 to qualify for capitalization. Where major capital software project costs are spread to individual AEP subsidiaries, any company receiving less than \$1,000 of the allocated cost should charge their share of the cost to expense.



## Property Accounting Policy/Procedure

Additions to AEP's retirement unit listing may be made by written request to Property Accounting that includes a description of the proposed new unit, its estimated useful life and the approximate cost of the item. Business unit representatives, Property Accounting and Accounting Policy and Research will review the requested additions to determine if it is appropriate to make the revision to AEP's retirement unit listing.

### Minor Items of Property:

Minor items of property are all items that are not defined as retirement units. They are generally less than \$1,000 and may be a part of a related retirement unit. In many cases, they are subject to frequent replacement and may therefore have shorter lives than a related retirement unit.

It is AEP's policy that unless a minor item of property is being added or removed along with a related retirement unit, the cost to add or remove a minor item of property should be charged to the appropriate maintenance account.

### Betterment

Betterment represents an improvement or enlargement of existing depreciable electric plant property by the replacement of minor items of property independent of the retirement units of which they are a part.

Betterment should only be considered as a reason for capitalization when there is no retirement unit being installed by the applicable project.

Betterment permits capitalization of the difference between the current material costs of the betterment parts over the current material costs of the replaced parts. No labor or other type costs can be capitalized using these criteria.

Betterment will only be considered as a reason for capitalization when a substantial addition such as \$500,000 or greater, results.

In addition, betterment should only be used as a reason for capitalization when there is an improvement or enlargement of existing depreciable electric plant where the improvement has the effect of **significantly** extending the original life or increasing the capacity or lowering the operating cost of the retirement unit affected.

Any capitalization of betterment costs requires written approval from Property Accounting and Accounting Policy and Research.



## Property Accounting Policy/Procedure

### Reviewers

Name	Initials	Date
James Henderson	JEH	4/19/04
Thomas Mitchell	TEM	4/19/04
Julie Williams	JW	4/20/04
Michael Sullivan	MJS	4/21/04
Sandra Bennett	SSB	6/14/04
Thomas M. Myers	TMM	5/24/04
Susan Higginson	SEH	6/17/04

### Approved By

Approver Name: Approved by J. M. Buonaiuto on 7/13/04 – signature on file in Property Accounting

### Edit History

Edited on 12/23/04 – for Jason Stegall to add “The assistant controller must approve all deviations from this policy.”





## Kentucky Power Company

### REQUEST

Identify and explain the Company's (including its parent and all affiliates) plans for the provision of Broadband Over Power Lines ("BPL"). Identify and explain all BPL trials in which the Company (including its parent and all affiliates) is involved.

### RESPONSE

The Company presently has no plans to offer BPL services to external customers (we may utilize similar technologies to perform AMR or network monitoring). The Company's strategy is use a "landlord" model if a BPL owner/operator requests to attach to Company facilities. As such, the Company will agree to permit the installation of BPL equipment on our distribution facilities under the following conditions:

- the BPL equipment must meet safety and operational concerns as determined solely by the Company,
- the Company must be satisfied that the BPL "owner/operator" can meet its financial and/or bonding obligations, and
- the BPL owner/operator must sign an agreement outlining the obligations of both parties and detailing the attachment rates payable to the Company.

In addition, the Company presently has no plans to invest in or to participate in a joint venture with a provider of BPL services.

The Company presently has no active trials under way in which BPL equipment is actually installed and operational on Company facilities.

**WITNESS:** Errol K Wagner



**Kentucky Power Company**

**REQUEST**

Please explain what impact BPL will have upon the following, by FERC USOA account:

- a. Plant lives;
- b. Plant retirement patterns (Iowa Curves);
- c. Gross salvage;
- d. Cost of removal;
- e. Retirement units;
- f. Accounting under FERC Uniform System of Accounts;
- g. Accounting under GAAP; and
- h. Accounting under SEC rules.

**RESPONSE**

Not applicable. Please refer to the response to AG request number 103.

**WITNESS:** James E Henderson



## Kentucky Power Company

### REQUEST

Please provide on diskette or CD all non-proprietary tabulations included in the Depreciation Study and all data necessary to recreate in their entirety, all analyses and calculations performed for the preparation of the study. Please provide this and all electronic data in Excel (or .txt format if appropriate), with all formulae intact. Please provide any record layouts necessary to interpret the data. Please include in the response electronic spreadsheet copies of all of the schedules and/or tables included in the Depreciation Study, with all formulae intact.

### RESPONSE

The requested data has been provided on a diskette. An explanation of the data follows:

Folder Titled Production:

File Big Sandy Age.xls - Calculation of Average Age of Surviving Balance (Pages 14 through 18 of 443 of the Study Workpapers)

File Big Sandy Rem Life.XLS - Calculation of Remaining Life (Pages 9 through 13 of 443 of the Study Workpapers)

File Big Sandy Theo Reserve,XLS - Calculation of Theoretical Reserve (Page 54 of 443 of Study Workpapers)

File ProductionAnalysis.xls - Pages 2 and 3 of 443 of Study Workpapers Containing the Salvage and Removal Allocations to Account

File PSALV.DAT - Salvage Analysis Data File (Can be accessed by Excel)

Column A Reserve Account

Column B Activity Year

Column C Original Cost Retired

Column D Salvage

Column D Removal

File RetRatio.xlw - Interim Retirement Ratios (Pages 4 through 8 of 443 of Study Workpapers)

Folder Titled Transmission

Files Titled 3502.DAT; 352.DAT;353.DAT;357.DAT and 358.DAT - Actuarial Study Data Files (Can be accessed by Excel)

Column A Activity Year

Column B Account

Column C R indicates retirement A indicates surviving balance at 12-31-04

Column D Vintage Year

Column E Original Cost  
Files Titled 354S.DAT; 355S.DAT and 356S.Dat - Simulation Data  
Column A Account  
Column B Activity Year  
Column C Addition  
Column D Retirement  
File Titled TSALV.DAT - Salvage Analysis Data File (Same format as for Production)  
File Titled TSALV.XLS - Allocation of Salvage to Account (Page 114 of 443 of Study  
Workpapers)  
File Titled TREMOVAL.XLS - Allocation of Removal to Account (Page 115 of 443 of Study  
Workpapers)  
File Titled TranNetSal.XLS - Net Salvage by Account (Page 113 of 443 of Study Workpapers)  
  
Folders Titled Distribution and General Follow Same Format as Noted for Transmission  
  
Folder Titled Other Depreciation Schedules contains Schedules I, II and III in Exhibit JEH-1.

WITNESS: James E Henderson





**Kentucky Power Company**

**REQUEST**

For each plant account (including all generation, transmission, distribution, general and common general accounts), and for each year since the inception of the account up to and including 2004, please provide the following standard depreciation study data as identified at pages 30-33 of the August 1996 NARUC Public Utility Depreciation Practices Manual ("NARUC Manual"). Provide the data in electronic format (Excel or .txt). Provide aged vintage data if available. Use the codes identified for each type of data, unless the Company regularly uses other codes. In those circumstances, identify and explain the Company's coding system.

**RESPONSE**

Please see response to AG question No. 105. The Company does not have the data in the format requested.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If the depreciation study data provided in response to the preceding question is not the exact set of data used for the depreciation study submitted in this case (for the accounts included in the study), explain all differences and reconcile the amounts provided to those used in the case.

**RESPONSE**

Not Applicable.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If not provided elsewhere, provide the cost of removal and gross salvage data used in the Depreciation Study net salvage analyses. If this data differs from that reflected on the Company's books, please explain the differences and provide a reconciliation. Please provide this data in electronic (Excel or .txt) format.

**RESPONSE**

Please refer to the response to AG Request No. 105.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

Provide the following annual accumulated depreciation amounts for all plant accounts (including all generation, transmission, distribution, general and common general accounts) for the last 20 years (up to, and including, 2004). If the requested data is not available for the last 20 years, provide the data for as many years as are available. Please provide data in both hard copy and electronic format (Excel or .txt).

- a. Beginning and ending reserve balances;
- b. Annual depreciation expense;
- c. Annual retirements;
- d. Annual cost of removal and gross salvage;
- e. Annual third party reimbursements.

**RESPONSE**

Attached is a schedule of the Company's annual accumulated provision for depreciation for the years 2002, 2003 and 2004. Please see the enclosed CD for an electronic copy of the spreadsheet.

**WITNESS:** James E Henderson

**KENTUCKY POWER COMPANY  
ANNUAL ACCUMULATED PROVISION FOR DEPRECIATION  
ACCOUNTS 1080001 AND 1080011**

YEAR	BEGINNING RESERVE BALANCE	ANNUAL DEPRECIATION	ANNUAL RETIREMENTS	ANNUAL COST OF REMOVAL	ANNUAL SALVAGE	ANNUAL TRANSFERS/ ADJUSTMENTS	ENDING RESERVE BALANCE
2002	(371,308,856)	(31,514,988)	8,115,731	3,092,952	(5,075,182)	(46,714)	(396,737,057)
2003	(396,737,057)	(36,025,829)	25,019,316	9,062,776	(1,737,692)	(90,552)	(400,509,038)
2004	(400,509,038)	(39,198,136)	23,942,222	5,536,071	(2,247,720)	3	(412,476,598)

Notes:

- (1) This analysis includes the balances in Accounts 1080001, Accumulated Provision for Depreciation, and Account 1080011, Cost of Removal Reserve. Balances in Account 1080005, Retirement Work in Progress, are not included in this analysis.
- (2) Third party reimbursements are not separately identified in the depreciation reserve. Consequently this information was not available for this analysis.





**Kentucky Power Company**

**REQUEST**

Provide a summary of annual maintenance expense by USOA account (for all accounts) for the last 20 years. If the requested data is not available for the last 20 years, provide the data for as many years as are available. Please provide data in both hard copy and electronic format.

**RESPONSE**

Attached is the annual maintenance expense by USOA account for Years 2002, 2003 and 2004. Please see the enclosed CD for an electronic copy of the spreadsheet. All other years' information are in the FERC Form 1, which is a public document and filed annually with the Federal Energy Regulatory Commission (FERC). The FERC Form 1 is also filed annually at the Kentucky Public Service Commission.

**WITNESS:** Errol K Wagner

Kentucky Power Company  
Summary of Annual Maintenance Expense  
Years 2002, 2003 and 2004

Line No.	Account	Account Description	Year 2002	Year 2003	Year 2004
1	5100000	Maint Supv & Engineering	1,381,330	1,279,808	1,353,937
2	5110000	Maintenance of Structures	1,016,790	417,625	210,819
3	5120000	Maintenance of Boiler Plant	12,790,978	4,949,567	9,180,356
4	5130000	Maintenance of Electric Plant	4,290,079	1,303,682	1,771,567
5	5140000	Maintenance of Misc Steam Plt	504,184	477,504	379,127
6		Steam Power Maintenance	19,983,362	8,428,186	12,895,806
7	5680000	Maint Supv & Engineering	135,609	115,234	123,713
8	5690000	Maintenance of Structures	485	13,065	10,853
9	5700000	Maint of Station Equipment	398,305	533,264	698,790
10	5710000	Maintenance of Overhead Lines	1,690,090	1,660,872	1,300,271
11	5720000	Maint of Underground Lines	59	615	0
12	5730000	Maint of Misc Trnsmssion Plt	5,830	1,288	1,984
13		Transmission - Maintenance	2,230,378	2,324,338	2,135,611
14	5900000	Maint Supv & Engineering	(11,498)	2,585	19,928
15	5910000	Maintenance of Structures	526	34,686	10,277
16	5920000	Maint of Station Equipment	574,382	345,922	743,177
17	5930000	Maintenance of Overhead Lines	9,828,568	13,183,960	13,965,042
18	5940000	Maint of Underground Lines	102,358	78,218	108,487
19	5950000	Maint of Lne Trnf,Rglators&Dvi	172,765	308,013	800,198
20	5960000	Maint of Strt Lghtng & Sgnal S	27,083	5,432	71,655
21	5970000	Maintenance of Meters	97,295	72,811	65,100
22	5980000	Maint of Misc Distribution Plt	227,153	533,168	492,889
23		Distribution - Maintenance	11,018,632	14,564,794	16,276,754
24	9350000	Maintenance of General Plant	5,979	25,833	490
25	9350001	Maint of Structures - Owned	497,559	368,549	373,592
26	9350002	Maint of Structures - Leased	65,645	28,494	104,548
27	9350007	Maint of Radio Equip - Owned	110	0	0
28	9350008	Maint of Radio Equip - Leased	800	0	0
29	9350009	Maint of Microwave Equipment	7	14	0
30	9350011	Maint of PABX Boards/Key Equip	6	0	0
31	9350012	Maint of Data Equipment	1,692	14,799	(10)
32	9350013	Maint of Cmmncation Eq-Unall	1,277,633	1,561,869	1,015,068
33	9350014	Maint Supv & Eng-Cmmun Eq	2	0	0
34	9350015	Maint of Office Furniture & Eq	10,834	15,272	15
35	9350016	Maintenance of Video Equipment	25	0	0
36	9350017	Maint of Misc General Property	(3,880)	(4,258)	0
37		Admin & General - Maintenance	1,856,411	2,010,572	1,493,702



**Kentucky Power Company**

**REQUEST**

Explain what consideration, if any, was given to annual maintenance expense data in Mr. Henderson's estimation of service lives, dispersion patterns, and net salvage.

**RESPONSE**

Mr. Henderson did not analyze maintenance expense.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If not provided elsewhere, provide the calculation of the rates proposed in the Depreciation Study in electronic format (Excel) with all formulae intact.

**RESPONSE**

Please refer to the response to AG Request No. 105.

**WITNESS:** James E Henderson





**Kentucky Power Company**

**REQUEST**

Does the Company maintain its book reserve by plant account? If not, explain why not.

**RESPONSE**

Please refer to pages 7 and 8 of Mr. Henderson's prefiled Direct Testimony.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If the Company does not maintain its book reserve by plant account, provide the calculation of the book reserve shown in the depreciation study.

**RESPONSE**

The calculation of the book reserve is provided for each plant account in the depreciation study workpapers.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

Was reciprocal, harmonic, or ELG weighting used in any of the depreciation rate calculations? If yes, please provide all calculations using direct weighting. Also, provide this in hardcopy and on diskette.

**RESPONSE**

No.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If applicable, calculate all depreciation rates using the same weighting procedure used in the current depreciation rates, i.e., the same procedure used the last time depreciation rates were calculated in the last depreciation study.

**RESPONSE**

Not applicable.

**WITNESS:** James E Henderson





**Kentucky Power Company**

**REQUEST**

If not provided elsewhere, please provide all remaining life calculations resulting from the depreciation study in electronic format (Excel) with all formulae intact.

**RESPONSE**

Please refer to the response to AG Request No. 105.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If not provided elsewhere, provide electronic (Excel) versions of the net salvage studies included in the depreciation study, with all formulae intact.

**RESPONSE**

Please refer to the response to AG Request No. 105.

**WITNESS:** James E Henderson



**Kentucky Power Company**

**REQUEST**

If not provided elsewhere, provide on diskette or CD all workpapers supporting estimated terminal net salvage estimates for each account for which terminal net salvage is a factor. Please include all calculations in electronic format (Excel), with all formulae intact.

**RESPONSE**

Please refer to the response to AG Request No. 105.

**WITNESS:** James E Henderson



## Kentucky Power Company

### REQUEST

Refer to each net salvage study in the Depreciation Study. For each of the five years ending 2004, explain whether it was normal or abnormal and why.

### RESPONSE

Mr. Henderson's net salvage recommendations were based on the 15 year period 1990-2004 and the assumptions were that the cumulative 15 year period represented normal net salvage. A five year analysis for each of the 5 years ending 2004 was not made.

WITNESS: James E Henderson





**Kentucky Power Company**

**REQUEST**

Explain, and provide examples of, the Company's retirement unit cost procedures for each account. Identify all changes to retirement unit costs which have occurred over the years.

**RESPONSE**

Other than requiring that a retirement unit have a minimal material value per unit of at least \$1,000 for Generation and General equipment and that capital software projects have a value of at least \$1,000, the Company does not have retirement unit cost procedures. See the Company's capitalization policy in response to Item No. 102.

**WITNESS:** James E Henderson