...3 to request a reasonable return and is not limited to recovering only its cost of ...t. A reasonable return includes both debt and equity. In the prior surcharge cases the utilities chose to limit their respective requested returns to a debt only component.

Kentucky Power proposed a return on equity for the overall company in the range of 11.75 percent to 12.25 percent, and recommended 12 percent as the appropriate return for determining the environmental surcharge. Kentucky Power used several methods to estimate its required return on equity. The basic results ranged from 10.8 percent to 13.64 percent.[69] The Commission has reviewed Kentucky Power's position in the electric utility industry and determined that Kentucky Power is in good financial condition, has relatively low rates, and is well positioned in the industry. Based on all these factors, the Commission finds that a return of 11.5 percent on equity for Kentucky Power's compliance-related capital expenditures is reasonable.

Based on Kentucky Power's capital structure and cost of debt as of December 31, 1996,[70] Kentucky Power's weighted cost of capital, before income tax gross-up, is:

	Capital Structure	Cost		Weighted Cost
Debt	54.65%	7.68%		4.197%
Equity	45.35%	11.50%	1.48	5.215%
Weighted Average Cost of Capital				9.412%

After adjusting the common equity weighted average cost of capital component for income tax gross-up,[71] the overall weighted average cost of capital is 12.96 percent.

69 Barber Direct Testimony at 9.

70 Response to Staff Hearing Request, April 2-3, 1997, Item 13.

71 Wagner Direct Testimony, Exhibit EKW-2, page 8 of 11.

American Electric Power-Kentucky
Environmental Surcharge Calculations
12 Months Ending December 1996 Estimate

Line No.	Description	December 1996 Capitalization (1)	Capitalization Percentage (2)	Interest Percent (3)	Gross Revenue Conversion Factor (4)		Weighted Average Cost (5)
1	Long Term Debt	$318,162,000	0.5557	0.076600			0.042567
2	Short Term Debt	8,790,000	0.0154	0.057500			0.000886
3	Common Equity	245,572,000	0.4289	0.120000	1.6801	1/	0.086471
4	Total	$572,524,000	1.0000				0.129924

1/ Gross Revenue Conversion Factor Calculation:

1	Operating Revenue	100.00
2	Uncollectible	0.20
3	Income Before State Taxes	99.80
4	Less: State Income Tax	
5	(Ln 3 x .0825)	8.23
6	Income Before Fed Inc Tax	91.57
7	Less: Federal Inc Tax	
8	(Ln 6 x .35)	32.05
9	Operating Inc Percentage	59.52
10	Gross Revenue Conversion	
11	Factor (100% / Ln 9)	1.6801*

* Based on Case No. 91-066

KENTUCKY POWER COMPANY

Computation Of Factor To Be Applied To Additional Revenue Generated By Rates Increase, In Determination Of An Uncollectible Accounts Adjustment To Be Added To O&M Expense

TWELVE MONTHS AS OF 12/31/90

Line No.		PSC of KY. JURISDICTION Electric Revenue	Accounts - Net Charged Off	% Of Elec. Rev.
(1)	(2)	(3)	(4)	(5)
1	12 MONTHS ENDED 12/31/88	$229,979,049	$456,718	0.20
2	12 MONTHS ENDED 12/31/89	234,400,256	475,924	0.20
3	12 MONTHS ENDED 12/31/90	247,634,585	460,785	0.19
4	Three Year Total And Average	$712,013,890	$1,393,427	0.20

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 71. Explain in detail why the revenue requirement for Kentucky Power's Kentucky jurisdictional operations should reflect Ohio franchise tax expense and West Virginia income tax expense. The explanation should address why the tax expense should be included in the operating statement of Kentucky Power, and not why the taxes should be reflected in the gross revenue conversion factor.

RESPONSE

The Ohio franchise tax and West Virginia income tax should be included in the operating statement of Kentucky Power because the taxes arise from activities conducted in the course of business and are payable by Kentucky Power and those activities produce revenues that are included in the rate case. Kentucky Power is obligated to pay state franchise tax in Ohio because Kentucky Power has nexus in Ohio. AEP system sales transactions are processed, contracted, and confirmed in Ohio. AEP Service Corporation performs this service as agent for the member affiliates which creates the taxable presence for Kentucky Power. Therefore, Kentucky Power is obligated to pay Ohio state franchise tax on the portion of its apportioned taxable income that relates to the system sales transactions.

Kentucky Power has employees who work out of the Williamson West Virginia service building to provide electric service to the Kentucky Power customers located in South Williamson Kentucky service area. The presence of these workers in West Virginia creates nexus with the state, thereby obligating Kentucky Power to pay West Virginia state income tax on its West Virginia apportioned taxable income.

WITNESS: Errol K Wagner, Sandra Keller

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 73. Provide an update on the status of the negotiations with the cities of Vanceburg and Olive Hill.

RESPONSE

Both contracts have been signed by the Cities. The Company hopes to have the contracts filed with the Federal Energy Regulatory Commission for its approval before the end of 2005.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 74. Provide copies of the portions of the Commission's October 28, 1991 Order in Case No. 1991-00066 that determined that deferred state income taxes are not recorded for rate-making purposes.

RESPONSE

The October 28, 1991 Order in Case No. 1991-00066 does not specifically state that deferred state income taxes are not recorded for ratemaking purposes. The absence of any deferred state income taxes in the calculation of federal and state income taxes included in cost of service in the Order, however, is evidence of that determination. See attached pages of the Company's filing in Case No. 1991-00066.

WITNESS: Jeffrey Bartsch

KENTUCKY POWER COMPANY
FEDERAL & STATE INCOME TAXES-SEPARATE RETURN
CURRENT YEAR
TEST YEAR 01/01/90 THRU 12/31/90

(1) LINE NO.	(2) DESCRIPTION	(3) ELECTRIC UTILITY	(4) KENTUCKY JURISDICTION
1	Total Federal Income Tax Payable	13,528,177	13,474,293
2	Total Investment Tax Credit Adj.	(1,302,060)	(1,298,154)
3	Deferred Federal Income Tax Net F/B	(860,889)	(859,403)
4	Total Current & Deferred Federal Income Taxes	11,365,228	11,316,736
5	State Income Tax	3,807,039	3,792,067

KENTUCKY POWER COMPANY

CALCULATION OF CURRENT FEDERAL & STATE INCOME TAXES
TEST PERIOD 01/01/90 - 12/31/90

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
			ADJUSTMENTS						
LINE NO.	DESCRIPTION	AMOUNTS PER FINANCIALS	NON-RECURRING & OTHER	NON-UTILITY	AMOUNTS REVISED	SYSTEM SALES & TRANSMISSION REVENUES	ELECTRIC UTILITY	KENTUCKY JURISDICTION	ALLOC. FACTOR
1	Operating Revenues								
2	Oper.Revenues-Sales of Elec.	291,150,293			291,150,293	(42,677,185)	248,473,108	247,634,585	SCH 6
3	Operating Revenues-Other	2,676,887			2,676,887	(795,167)	1,881,720	1,881,227	SCH 6
4	Total Operating Revenues	293,827,180		0	293,827,180	(43,472,352)	250,354,828	249,515,812	
5	Operating Expenses								
6	Operating Expense	175,243,290			175,243,290	(43,472,352)	131,770,938		
7	Maintenance Expense	25,346,125			25,346,125		25,346,125	156,597,323	SCH 7
8	Depreciation Expense	20,449,521			20,449,521		20,449,521	20,393,035	SCH 8
9	Taxes Other Than Inc.Taxes	5,645,391		(34,532)	5,610,859		5,610,859	5,596,753	SCH 9
10	Total Operating Expense	226,684,327		(34,532)	226,649,795	(43,472,352)	183,177,443	182,587,111	
11	Operating Income	67,142,853		34,532	67,177,385	0	67,177,385	66,928,701	
12	Income Taxes								
13	State Income Tax	(3,836,061)	3,836,061		0		0		
14	Federal Income Tax	(11,373,626)	11,373,626		0		0		
15	Total Income Taxes	(15,209,687)	15,209,687		0		0		
16	Net Electric Oper.Income	51,933,166	15,209,687	34,532	67,177,385		67,177,385	66,928,701	
17	Other Income & Deductions								
18	Other Income(Incl. AOFUDC)	638,477		(638,477)	0		0		
19	Other Income Deductions	(370,855)		370,855	0		0		
20	Taxes App.to Oth.Inc.& Ded.	511,247		(511,247)	0		0		
21	Int.Charges (Net of ABFUDC)	(20,232,520)	AK 4277432		(20,232,520)		(20,232,520)	(20,171,822)	0.997 GP-TOT
22	Total Other Inc.& Ded.	(19,453,651)		(778,869)	(20,232,520)		(20,232,520)	(20,171,822)	
23	Net Income(Before FIT & SIT)	32,479,515	15,209,687	(744,337)	46,944,865	0	46,944,865	46,756,879	

KENTUCKY POWER COMPANY

CALCULATION OF CURRENT FEDERAL & STATE INCOME TAXES
TEST PERIOD 01/01/90 - 12/31/90

(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)	(10)	(11)	(12)
			ADJUSTMENTS							
LINE NO.	DESCRIPTION	AMOUNTS PER FINANCIALS	NON-RECURRING & OTHER	NON-UTILITY	AMOUNTS REVISED	SYSTEM SALES & TRANS. REVENUES	ELECTRIC UTILITY	KENTUCKY JURIS.	ALLOC. FACTOR	
	Schedule M-1 Adjustments									
24	Federal Income Taxes	11,373,626	(11,373,626)		0		0			
25	Liberalized Depr.-Reg.-Set Up	(96,000)			(96,000)		(96,000)	(95,712)	0.997	GP-TOT
26	Liberalized Depr.-Reg.-Rev.	3,480,000			3,480,000		3,480,000	3,469,560	0.997	GP-TOT
27	Liberalized Depr.-HR/J-Set Up	(72,000)			(72,000)		(72,000)	(71,784)	0.997	GP-TOT
28	Liberalized Depr.-HR/J-Rev.	72,000			72,000		72,000	71,784	0.997	GP-TOT
29	Class Life Depr.(ADR)-REG.-SetUp	(1,236,000)			(1,236,000)		(1,236,000)	(1,232,292)	0.997	GP-TOT
30	Class Life Depr.(ADR)-HR/J-SetUp	(228,000)			(228,000)		(228,000)	(227,316)	0.997	GP-TOT
31	ACRS Benefit Normal.-Reg.-SetUp	(5,556,000)			(5,556,000)		(5,556,000)	(5,539,332)	0.997	GP-TOT
32	ACRS Benefit Norm.-Reg.-Rev.	36,000			36,000		36,000	35,892	0.997	GP-TOT
33	ACRS Benefit Norm.-HR/J-SetUp	(1,380,000)			(1,380,000)		(1,380,000)	(1,375,860)	0.997	GP-TOT
34	Excess Tax vs. S/L Book Depr.	1,020,000			1,020,000		1,020,000	1,016,940	0.997	GP-TOT
35	Excess Tax vs.S/L BK Depr.-HR/J	336,000			336,000		336,000	334,992	0.997	GP-TOT
[illegible]	ABFUDC-REG	(743,684)			(743,684)		(743,684)	(741,453)	0.997	GP-TOT
37	ABFUDC-HR/J Post-In-Service	22,044			22,044		22,044	22,044	1.000	SPECIF.
38	Capitalization of Interest	693,261			693,261		693,261	691.181	0.997	GP-TOT
39	Taxes Charged to Retirement	(55,464)			(55,464)		(55,464)	(55,298)	0.997	GP-TOT
40	Pensions Charged to Retirement	(9,176)			(9,176)		(9,176)	(9,158)	0.998	OML
41	Savings Plan Charged to Retire.	(13,931)			(13,931)		(13,931)	(13,903)	0.998	OML
42	Cust. Adv. Inc. For Tax	258,780			258,780		258,780	258,780	1.000	SPEC
43	Cust.Adv.-Refund or Book Exp.Cr.	(72,735)			(72,735)		(72,735)	(72,735)	1.000	SPEC
44	Percent Repair Allowance	(696,000)			(696,000)		(696,000)	(693,912)	0.997	GP-TOT
45	Removal Cost	(2,604,000)			(2,604,000)		(2,604,000)	(2,596,188)	0.997	GP-TOT
46	Deferred Fuel-Net	628,782			628,782		628,782	628,782	1.000	SPECIF.
47	Accrued Utility Revenues-Net	2,098,764	(2,098,764)		0		0	0	0.997	OP-REV
48	Clearing Accounts	(77,791)			(77,791)		(77,791)	(77,558)	0.997	GP-TOT
49	INA Insurance	(317,075)			(317,075)		(317,075)	(316,124)	0.997	GP-TOT
50	Book Prov. for Uncollect.Accts.	455,000			455,000		455,000	455,000	1.000	SPECIF.
51	4Yr.Amort.1986 Blk.Mot.Res.Bal.	145,642	(145,642)		0		0	0	1.000	SPECIF.
52	CIAC Book Receipts	905,576			905,576		905,576	905,576	1.000	SPEC
53	CIAC Tax Depreciation	(180,000)			(180,000)		(180,000)	(180,000)	1.000	SPEC
54	AOFUDC	(289,211)	289,211		0		0	0	0.997	GP-TOT
55	AOFUDC-HRJ Post In Service	11,364			11,364		11,364	11,319	0.996	GP-TRAN:
56	Net Accts. Rec. Written Off	(460,785)			(460,785)		(460,785)	(460,785)	1.000	SPECIF.
57	Accrued Manage. Incent. Bonus	180,000			180,000		180,000	179,640	0.998	OML
58	Water Heater Program	(74,717)			(74,717)		(74,717)	(74,717)	1.000	SPECIF.
59	Post Retirement Benefit Payment	(760,000)			(760,000)		(760,000)	(758,480)	0.998	OML
60	Taxes On Accrued Payroll (Net)	6,805			6,805		6,805	6,791	0.998	OML
[illegible]	Advance Rental Income (Net)	(3,838)			(3,838)		(3,838)	(3,838)	1.000	OP-REV-
[illegible]	Recog.Tax Gain-Rockport U 1	373,860			373,860		373,860	372,365	0.996	PDAF
63	Book Amort.-Loss on Reacq.Debt	570,396			570,396		570,396	568,685	0.997	GP-TOT
64	Non-Deduct. Meals & Travel Exp.	33,252			33,252		33,252	33,185	0.998	OML
65	Membership Dues	32,964		(32,964)	0		0	0		
66	Def.Vacation Accrual-This Year	(1,899,166)			(1,899,166)		(1,899,166)	(1,895,368)	0.998	OML
67	Def.Vacation Accrual-Next Year	2,443,622			2,443,622		2,443,622	2,438,735	0.998	OML
68	Vacation Pay Sec.481 Adj.Amort.	320,566			320,566		320,566	319,925	0.998	OML

69 OVR Fund Pens.Trust Bk. Expense	166,978			166,978		166,978	166,644	0.998	OML
70 TX Depr. Dumont Test Ctr.	(18,612)			(18,612)		(18,612)	(18,538)	0.996	GP-TRANS
71 BK Amort.Dumont Test Ctr.-Norm.	31,236			31,236		31,236	31,111	0.996	GP-TRANS
72 BK Amort. Dumont Test Ctr.-F/T	29,484			29,484		29,484	29,366	0.996	GP-TRANS
73 Sec. 481-3 Yr.Adj.Prop. Tax-KY	1,119,996			1,119,996		1,119,996	1,116,636	0.997	GP-TOT
74 Def. Compensation-Book Expense	36,001			36,001		36,001	35,929	0.998	OML
75 Non-Deduct-DED Comp.Insur.Prem.	20,732			20,732		20,732	20,691	0.996	OML
76 P/Y-Defd.Comp. CSV Earn.	(31,497)			(31,497)		(31,497)	(31,434)	0.998	OML
77 Def. Compensation Payments	(14,334)			(14,334)		(14,334)	(14,305)	0.998	OML
78 Total Schedule M-1 Adjustments	10,012,715	(13,328,821)	(32,964)	(3,349,070)	0	(3,349,070)	(3,334,536)		

KENTUCKY POWER COMPANY
CALCULATION OF CURRENT FEDERAL & STATE INCOME TAXES
TEST PERIOD 01/01/90 - 12/31/90

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
			ADJUSTMENTS						
LINE NO.	DESCRIPTION	AMOUNTS PER FINANCIALS	NON-RECURRING & OTHER	NON UTILITY	AMOUNTS REVISED	SYSTEM SALES & TRANSMISSION REVENUES	ELECTRIC UTILITY	KENTUCKY JURISDICTION	ALLOC. FACTOR
79	NET INCOME (BEFORE FIT & SIT)	32,479,515	15,209,687	(744,337)	46,944,865		46,944,865	46,756,879	
80	TOTAL SCHED. M-1 ADJUST.	10,012,715	(13,328,821)	(32,964)	(3,349,070)		(3,349,070)	(3,334,536)	
81	ROCKPORT PER 9061								
82	ACRS Depr. Adjustment-Reg.				2,175,266		2,175,266	2,168,740	0.997
83	PER the State of Kentucky-HRJ				374,870		374,870	373,371	0.996
84	STATE TAXABLE INCOME (COL. #7)				46,145,931		46,145,931	45,964,454	
85	State Income Tax Rate				x 8.25%		x 8.25%	x 8.25%	
86	TOTAL STATE INCOME TAXES				3,807,039		3,807,039	3,792,067	
87	Allocation of AEPCo. Inc. (Loss)				0		0		0.997
88	FEDERAL TAXABLE INCOME (COL. #7)				39,788,756		39,788,756	39,630,276	
89	Federal Income Tax Rate				x 34%		x 34%	x 34%	
90	TOTAL FEDERAL INCOME TAX				13,528,177		13,528,177	13,474,293	
91	FEDERAL INVESTMENT TAX CREDIT								
92	(A) Generated								
93	(B) 85% Limitation								
94	TOTAL FEDERAL INVEST.TAX CR.				0		0	0	
95	FEDERAL INCOME TAX PAYABLE				13,528,177		13,528,177	13,474,293	
96	INVESTMENT TAX CREDIT NORM.100%				0		0	0	
97	FEEDBACK OF ITC NORM @30 YEARS				0		0	0	
98	NET INVEST.TAX CR.NORMALIZED				0		0	0	
99	Summary of Curr. Fed.Inc.Taxes								
100	Current Federal Income Tax				13,528,177		13,528,177	13,474,293	
101	Current Investment Tax Credit				0		0	0	
102	Current Invest.Tax Cr.Normalized				0		0	0	
103	Feedback of Curr. ITC Normalized				0		0	0	
104	Feedback of Prior ITC Normalized	(1,302,060)	0		(1,302,060)		(1,302,060)	(1,298,154)	0.997
105	TOTAL CURRENT FEDERAL INCOME TAX				12,226,117		12,226,117	12,176,139	

KENTUCKY POWER COMPANY
CALCULATION OF DEFERRED FEDERAL INCOME TAXES
TEST PERIOD 01/01/90 - 12/31/90

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			ADJUSTMENTS				
LINE NO.	DESCRIPTION	AMOUNTS PER FINANCIALS	NON-RECURRING & OTHER	NON-UTILITY	ELECTRIC UTILITY	KENTUCKY JURISDICTION	ALLOCATION FACTOR
106	Liberalized Depr-Regular - Set Up	(96,000)			(96,000)	(95,712)	0.997
107	Tax Rate	X 34%			X 34%	X 34%	GP-TOT
108	DFIT: Liberalized Depreciation-Regular - Set Up	32,640			32,640	32,542	
109	Liberalized Depr. - Reg. Rev.	3,480,000			3,480,000	3,469,560	0.997
110	Tax Rate	X 46%			X 46%	X 46%	GP-TOT
111	DFIT: Liberalized Depreciation - Reg. - Rev.	(1,600,800)			(1,600,800)	(1,595,998)	
112	Liberalized Depreciation-HR/J-Set Up	(72,000)			(72,000)	(71,784)	0.997
113	Tax Rate	X 34%			X 34%	X 34%	GP-TOT
114	DFIT: Liberalized Depr-HR/J- Set Up	24,480			24,480	24,407	
115	Liberalized Depreciation-HRJ-Rev.	72,000			72,000	71,784	0.997
116	Tax Rate	X 46%			X 46%	X 46%	GP-TOT
117	DFIT: Liberalized Depr-HRJ-Rev.	(33,120)			(33,120)	(33,021)	
118	Class Life Depr (ADR)-Reg. - Set Up	(1,236,000)			(1,236,000)	(1,232,292)	0.997
119	Tax Rate	X 34%			X 34%	X 34%	GP-TOT
120	DFIT: Class Life (ADR) Depreciation-Reg.-Set Up	420,240			420,240	418,979	
121	Class Life Depr.(ADR)-Reg. - Rev.	0			0	0	0.997
122	Tax Rate	X 34%			X 34%	X 34%	GP-TOT
123	DFIT: Class Life (ADR) Depr.-Reg.-Set Up	0			0	0	
124	Class Life Depr. (ADR) HR/J-Set Up	(228,000)			(228,000)	(227,316)	0.997
125	Tax Rate	X 34%			X 34%	X 34%	GP-TOT
126	DFIT: Class Life (ADR) Depreciation-HR/J-Set Up	77,520			77,520	77,287	

127	ACRS Depr. Benefit Normalized-Reg.-Set Up	(5,556,000)	(5,556,000)	(5,539,332)	0.997
128	Tax Rate	X 34%	X 34%	X 34%	GP-TOT
129	DFIT-ACRS Depr. Benefit Norm.-Reg.-Set Up	1,889,040	1,889,040	1,883,373	.997
130	ACRS Depr. Benefit Normalized-Reg.-Rev.	36,000	36,000	35,892	0.997
131	Tax Rate	X 43.3333%	X 43%	X 43%	GP-TOT
132	DFIT: ACRS Depr. Benefit Norm.-Reg.-Rev.	(15,600)	(15,600)	(15,553)	
133	ACRS Depr. Benefit Normalized-HR/J-Set Up	(1,380,000)	(1,380,000)	(1,375,860)	0.997
134	Tax Rate	X 34%	X 34%	X 34%	GP-TOT
135	DFIT: ACRS Depr. Benefit Norm.-HR/J-Set Up	469,200	469,200	467,792	
136	AFUDC - Reg.	(743,684)	(743,684)	(741,453)	0.997
137	Tax Rate	X 34%	X 34%	X 34%	GP-TOT
138	DFIT-AFUDC-Borrowed-Reg.	252,853	252,853	252,094	
139	Capitalization of Interest	693,261	693,261	691,181	0.997
140	Tax Rate	X 34%	X 34%	X 34%	GP-TOT
141	DFIT: Capitalization of Interest	(235,709)	(235,709)	(235,002)	
142	Cust. Adv. Income For Tax	258,780	258,780	258,780	1.000
143	Tax Rate	X 34%	X 34%	X 34%	SPEC
144	DFIT: Cust. Adv. Inc. For Tax	(87,985)	(87,985)	(87,985)	
145	Cust. Adv. - Ref.	(72,735)	(72,735)	(72,735)	1.000
146	Tax Rate	X 34%	X 34%	X 34%	SPEC
147	DFIT: Cust. Adv. - Ref.	24,730	24,730	24,730	
148	CIAC - Book Receipts	905,576	905,576	905,576	1.000
149	Tax Rate	X 34%	X 34%	X 34%	SPEC
150	DFIT: Contribution In Aid of Construction	(307,896)	(307,896)	(307,896)	
151	CIAC - Tax Depreciation	(180,000)	(180,000)	(180,000)	1.000
152	Tax Rate	X 34.7666%	X 34.7666%	X 34.7666%	SPEC
153	DFIT: CIAC Tax Depreciaiton	62,580	62,580	62,580	

154	Percent Repair Allowance	(696,000)		(696,000)	(693,912)	0.997
155	Tax Rate	X 34%		X 34%	X 34%	SPEC
156	DFIT: Percent Repair Allowance	236,640		236,640	235,930	
157	Post Retirement Benefit - Payment	(760,000)		(760,000)	(758,480)	0.998
158	Tax Rate	X 34%		X 34%	X 34%	OML
159	DFIT: Post Retirement Benefit Payment	258,400		258,400	257.883	
160	Dumont Depr. Net	12,624		12,624	12,624	1.000
161	Tax Rate	X 34%		X 34%	X 34%	SPEC
162	DFIT: Dumont Depreciation Net	(4,292)		(4,292)	(4.292)	
163	Property Tax Sec. 481-3 Yr. Adj.	1,119,996		1,119,996	1.116.636	0.997
164	Tax Rate	X 34%		X 34%	X 34%	GP-TOT
165	DFIT: Property Tax Sec. 481-3 Yr. Adj.	(380,799)		(380,799)	(379,656)	
166	Deferred Fuel Expense (Net)	628,782		628,782	628,782	1.000
167	Tax Rate	X 34%		X 34%	X 34%	SPEC
168	DFIT: Deferred Fuel Expense	(213,786)		(213,786)	(213,786)	
169	ACC UTIL REVS (NET) (4 Yr. Amortization)	2,098,764	(2,098.764)	0	0	0.997
170	Tax Rate	X 34%	X 34%	X 34%	X 34%	OP-REV
171	DFIT: ACC UTIL REVS (NET) (4 Yr. Amortization)	(713,580)	713,580	0	0	
172	NET CHANGE TO CLEARING ACCOUNTS	(77,791)		(77,791)	(77,558)	0.997
173	Tax Rate	x 34%		x 34%	X 34%	GP-TOT
174	DFIT: Net Change to Clearing Accounts	26,449		26,449	26,370	
175	INA Insurance Cost (Net)	(317,075)		(317,075)	(316,124)	0.997
176	Tax Rate.	37.9755%		X 34%	X 34%	GP-TOT
177	DFIT: INA Insurance Costs	120,411	(12,605)	107,806	107,482	

178	Book Prov. for Uncollectible Accounts	455,000		455,000	455,000	1.000	
179	Tax Rate	X 34%		X 34%	X 34%	SPEC	
180	DFIT: Book Prov. for Uncollectbile Accts.	(154,700)		(154,700)	(154,700)		
181	4 Year Amortization-1986 Black Motor Res. Bal.	145,642	(145,642)	0	0	1.000	
182	Tax Rate	X 46%	X 46%	X 46%	X 46%	SPEC	
183	DFIT: 4 Yr. Amort. 1986 Blk. Motor Res. Bal.	(66,995)	66,995	0	0		
184	Net Accounts Rec. Written-Off	(460,785)		(460,785)	(460,785)	1.000	
185	Tax Rate	X 34%		X 34%	X 34%	SPEC	
186	DFIT: Net Accounts Rec. Written-Off	156,667		156,667	156,667		
187	Taxes On Accrued Payroll (Net)	6,805		6,805	6,791	0.998	
188	Tax Rate	X 34%		X 34%	X 34%	OHL	
189	DFIT: Taxes on Accrued Payroll (Net)	(2,314)		(2,314)	(2,309)		
190	Management Incentive Bonus	180,000		180,000	179,640	0.998	
191	Tax Rate	X 34%		X 34%	X 34%	OHL	
192	DFIT: Management Incentive Bonus	(61,200)		(61,200)	(61,078)		
193	Advance Rental Income (Net)	(3,838)		(3,838)	(3,838)	1.000	
194	Tax Rate	X 34%		X 34%	X 34%	OP-REV-O	
195	DFIT: Advance Rental Income	1,305		1,305	1,305		
196	Recog. Tax Gain on Rockport U1	373,860		373,860	372,365	0.996	
197	Less Flow Through	(128,356)		(128,356)	(127,843)	0.996	
		245,504		245,504	244,522		
198	Tax Rate	X 46%		X 46%	X 46%	PDAF	
199	DFIT: Recog. Tax Gain on Rockport	(112,932)		(112,932)	(112,480)		

200	Water Heater Program	(74,717)			(74,717)	(74,717)	1.000
201	Tax Rate	X 34%			X 34%	X 34%	
202	DFIT: Water Heater Program-Net	25,404			25,404	25,404	
203	Over-Fund Pens. Trust Fund BK Exp.	166,978			166,978	166,644	0.998
204	Tax Rate	X 34%			X 34%	X 34%	OML
205	DFIT: Over-Fund Pens. Trust Fund BK Exp.	(56,773)			(56,773)	(56,659)	
206	Bk. Amort. Loss on Reacquired Debt	570,396			570,396	568,685	0.997
207	Tax Rate	X 45.463%			X 45.463%	X 45.463%	GP-TOT
208	DFIT: Bk. Amort. Loss on Reacquired Debt	(259,318)			(259,318)	(258,541)	
209	Deferred Vacation Accrual-This Year	(1,899,166)			(1,899,166)	(1,895,368)	0.998
210	Tax Rate	X 34%			X 34%	X 34%	OML
211	DFIT: Deferred Vacation Accrual-This Year	645,716			645,716	644,425	
212	Deferred Vacation Accrual-Next Year	2,443,622			2,443,622	2,438,735	0.998
213	Tax Rate	X 34%			X 34%	X 34%	OML
214	DFIT: Deferred Vacation Accrual-Next Year	(830,831)			(830,831)	(829,170)	
215	Vacation Pay Sec 481 Adj. Amort.	320,566			320,566	319,925	0.998
216	Tax Rate	X 34%			X 34%	X 34%	OML
217	DFIT: Vacation Pay Sec.481 Adjustment	(108,992)			(108,992)	(108,774)	
218	Deferred Comp. - Book Expense	21,667			21,667	21,624	0.998
219	Tax Rate	X 34%			X 34%	X 34%	OML
220	DFIT: Defd. Comp. - Book Expense	(7,367)			(7,367)	(7,352)	
221	TOTAL CURRENT DFIT NET OF CUR. YR. FEEDBACK	(530,715)	767,970	0	237,255	234,999	

222	FEEDBACK OF DFIT PRIOR YEARS, (Financial Pages)								
223	Taxes Capitalized	(86,916)			(86,916)	(86,655)	0.997	GP-TOT
224	Pensions Capitalized	(11,664)			(11,664)	(11,641)	0.998	OHL
225	Savings Plan Capitalized	(5,544)			(5,544)	(5,533)	0.998	OHL
226	Allowance for Borrowed Funds	(57,480)	(4,212)		(61,692)	(61,507)	0.997	GP-TOT
227	ABFUDC - HRJ	(494,244)			(494,244)	(492,267)	0.996	GP-TRAN
228	ABFUDC - HRJ Post in Service	(10,080)			(10,080)	(10,080)	1.000	SPEC
229	Interest Capitalized	9,102	3,930		13,032	12,993	0.997	GP-TOT
230	ADR Repair Allowance	(429,306)	(3,942)		(433,248)	(431,948)	0.997	GP-TOT
231	Ex X Rate Change	(382)	382		0	0		
232	FERC 144	(327)	327		0	0		
233	DFIT Prop Retirement	(7,788)			(7,788)	(7,765)	0.997	
234	TOTAL FEEDBACK OF DFIT PRIOR YEARS	(1,094,629)	(3,515)	0	(1,098,144)	(1,094,403)		
235	Total Excess DFIT	0			0			
236	TOTAL SUMMARY							
237	Total Current DFIT Net of Cur.Yr. Feedback	(530,715)	767,970	0	237,255	234,999		
238	Total Feedback of DFIT Pr. Yr.	(1,094,629)	(3,515)	0	(1,098,144)	(1,094,403)		
239	Sub-Total DFIT Net of Feedback	(1,625,344)	764,455	0	(860,889)	(859,403)		
240	Total Excess DFIT	0			0			
241	TOTAL DEFERRED FEDERAL INCOME TAXES	(1,625,344)	764,455	0	(860,889)	(859,403)		

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 75(c). Provide the status of the "nearly 100,000 tons of coal" scheduled for delivery in November and December of 2005, and include the Big Sandy coal inventory level, stated in days' burn, as of December 15, 2005. Consider this an ongoing request and provide, by January 31, 2006, the same information as of January 15, 2006.

RESPONSE

Kentucky Power coal suppliers continue to experience challenges in meeting scheduled deliveries. Of the 322,000 tons of coal scheduled for delivery in November 2005, only 217,000 tons were received resulting in a 105,000-ton shortfall. Deliveries in December 2005 through the 15th are also below expectations. As of December 15, 2005, Kentucky Power's coal inventory level is at 21 days of supply.

In light of these ongoing difficulties, Kentucky Power has been successful in recently procuring additional coal to offset the shortfalls currently being experienced. While secure market tonnages continue to be elusive, Kentucky Power remains aggressive in its pursuit of additional opportunities that may exist. Kentucky Power does not anticipate reaching its 35-day target coal inventory level until March 2006.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 82. Based on its responses, is Kentucky Power proposing that the environmental surcharge to be billed to customers would be determined by the formula "CRR – MEBC" rather than the current approach of "CRR – BRR"? Explain the response.

RESPONSE

Initially the Company was proposing to use the CRR-MEBC formula rather than the current approach of CRR-BRR. Upon reflection, the Company believes it is appropriate to continue with the current approach of CRR-BRR once the BRR is updated to reflect the base period revenue requirement for the test year in this case.

WITNESS: Errol K Wagner

Kentucky Power Company

REQUEST

Refer to the response to the AG's First Request, Item 44(a). For each of the items listed below, provide copies of the advertisement and explain why the expense should be included for rate-making purposes.

a. Voucher No. 0107994 – Floyd County Chamber Of Commerce – Invoice No. 805, page 3 of 6.

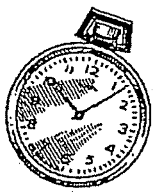
b. Voucher No. 00108939 – Clark Publishing Inc. – Invoice No. 36298, page 3 of 6.

RESPONSE

a. A copy of the advertisement is shown on page 2 of this response. This ad should be included for rate-making purposes because it is providing our customers with information on how to contact us to report service outages, fallen power lines, requesting account information, bill payment options, etc.

b. A copy of the advertisement is shown on page 3 of this response. This ad should be included for rate-making purposes because it is providing our customers with information on the Company's plans to invest millions of dollars in environmental improvements that will enhance the quality of air and life for our customers and the millions of dollars in our energy delivery system in order to better serve our customers.

WITNESS: Ranie K Wohnhas



Here to serve you 24 hours a day

Convenient customer service

Customer service means always being there. That's why Kentucky Power offers a wide rage of options to customers 24 hours a day, 7 days a week. Whether you are reporting a service outage or a fallen power line, requesting account information, reviewing convenient bill-payment options or looking for quick energy-savings tips, we can help. Our customer services representatives are available to assist you by calling

(800) 572-1113.

You can also access our web site at www.kentuckypower.com.

AEP KENTUCKY POWER®

A unit of American Electric Power

Circled 4-27-05

Kentucky Power has been a part of Kentucky's history for 85 years. Serving 175,000 customers in 20 eastern counties, we are a part of the rich heritage that makes the region special. And we plan to be here well into the future. By investing millions of dollars in environmental improvements at our power plant, and millions more in our energy delivery system, we are investing in Kentucky, its people and a bright future. When it comes to serving the Commonwealth, ***Kentucky Power is there, always working for you.***

AEP
KENTUCKY POWER
A unit of American Electric Power

www.KentuckyPower.com

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 94.

a. Concerning the response to Items 94(a) and 94(b), provide a further breakdown of the percentage of Edison Electric Institute ("EEI") dues for the following categories, if available:
(1) Advertising – six cost categories are identified in the category description.
(2) Marketing – the category description states this category contains both marketing and demand-side management costs.

b. Would Kentucky Power agree that the percentage of its EEI dues associated with Legislative Advocacy, Regulatory Advocacy, and Public Relations should be excluded for rate-making purposes? Explain the response.

c. Concerning the response to Item 94(c), Kentucky Power was requested to explain why the dues for the listed organizations should be included for rate-making purposes. The response did not include the requested explanations. Provide the originally requested information.

RESPONSE

a. Per a copy of an email attached as page 3 of this response, EEI is not able to breakdown the advertising and marketing expenses into the subcategories listed on response to Items 94(a) and 94(b). The subcategories are listed as examples of what are to include in those categories; however, EEI does not record time or expenses to those subcategories.

b. Kentucky Power does not agree with this statement. The percentage of EEI dues that fund Legislative Advocacy, Regulatory Advocacy and Public Relations should be recoverable for rate-making purposes for the following reasons:

1. Kentucky Power's customers benefit directly from our involvement in best practices discussions with other members of EEI. We can learn and apply cost saving approaches that enable us to reduce costs or hold off further increases.

2. Legislation or regulation that produces benefits to customers can be shared among the members of an organization like EEI. Particularly negative legislation or regulation can also be discussed to potentially mitigate cost increases.

3. The opportunity to address potential cost increasing legislation can be more effectively engaged with the clout of an organization like EEI. Conversely, when a positive legislative or regulatory issue surfaces, the "strength in numbers" approach could produce cost savings or cost increase avoidance for Kentucky Power's customers.

c. SEE - As noted previously, the primary benefit of our participation in Southeastern Electric Exchange is the mutual assistance program in times of major storm restoration. This provides a benefit to Kentucky Power customers when it is the company being assisted. It significantly reduces outage times for our customers and helps us control the total restoration cost. The reciprocity aspects when Kentucky Power is the assisting another company provides the assurance to our customers that help will be there if and when we need it. Another positive cost saving benefit from our participation in SEE is the best practice discussions that are held with the participating utilities. All customers' benefit when best practices emerge from discussions among companies with like operations.

SGPB - The Southern Growth Policies Board allows us to represent our customers to a large region of the south, 14 states and Puerto Rico. Our customers benefit from participation in that the purpose of the organization is to foster growth in the southern states. With growth comes the opportunity for expansion and additional sales. That in turn allows us to spread fixed costs over a larger base.

SSEB - The Southern States Energy Board creates programs in the fields of energy and environmental policy research, development and implementation, science and technology exploration and related areas of concern. Knowledge from this organization has enabled our state to remain competitive in the economic development and energy arenas and this knowledge is then enjoyed by the ratepayers in the form of low rates and environmentally sound practices. Membership and participation in this organization has also proved vital when providing knowledge, expertise and communication to various Kentucky agencies (PSC, Legislators, LRC Staff and the EPPC) during the development of energy and environmental policy for Kentucky. In fact many of these agencies are represented at the SSEB meetings. Kentucky enjoys a solid energy and environmental climate by having been exposed to the issues and having been educated from participation in such organizations.

WITNESS: Timothy C Mosher

"Farrell, Brian" <BFarrell@eei.org>
12/19/2005 10:00 AM

To <pssplawnyk@aep.com>
cc "Stringfellow, David" <DStringfellow@eei.org>, <jlbrubaker@aep.com>
Subject Naruc Data Codes Request

You had forwarded to David Stringfellow a request from the Kentucky Commission regarding the aggregation of EEI expenses into the categories of Advertising, and of Marketing. Unfortunately, we are not able to break down those expenses further into subcategories. We have listed the subcategories as examples of what are to be included in those categories. But we do not record our time and expenses broken down into those subcategories. Thus we are not able to provide you with this data.

I hope this addresses your question. Please let me know if you have any questions.

Brian

Brian Farrell
Director, Member Relations
Edison Electric Institute
(202) 508-5649
bfarrell@eei.org

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Items 98(c) through 98(f). For each of the expense categories listed below, explain why the expense should be included for rate-making purposes:

a. Mge/Part Community Relations.
b. Mge/Part Env. Pub. Policy Issues.
c. Mge/Part Public Relations.
d. Mge/Part Public Policy Issues.
e. Mge/Part In Legislative Affrs.
f. Manage and Provide Branding.

RESPONSE

a. Mge/Part Community Relations:

Kentucky Power's customers directly benefit from our activities in community relations for the following reasons:

1. We can assess our quality of service and reliability directly with input from business leaders, politicians and other civic leaders, and teachers and learn if our budgeted reliability projects are addressing problem areas.

2. By having developed relationships with the community leaders we can learn of safety concerns earlier, thereby reducing potential injuries to the public or potentially longer outages for our customers.

b. Mge/Part Env. Pub. Policy Issues

Kentucky Power's customers directly benefit from our activities in environmental public policy for the following reasons:

1. We can stay abreast of developing issues in the area we serve regarding the environment and develop cost effective programs to address those issues in a timely manner.

2. Participation in organizations focused on environmental public policy allows Kentucky Power to discuss best practices with other manufacturers whose operations affect the environment, thus reducing potential wasted dollars on programs that might not be as effective.

c. Mge/Part Public Relations

Kentucky Power's customers benefit from our activities in Public relations for the following reasons:

1. Having developed relationships with the public we can learn of potential problem areas or situations sooner, thus reducing our overall cost in addressing issues and applying remedies.

2. If the public knows and understands some of the inherent dangers of providing electric service, we can avoid or eliminate potential situations that could result in a prolonged outage and unnecessarily increases of our overtime costs.

d. Mge/Part Public Policy Issues

Kentucky Power's customers benefit from our activities in public policy issues for the following reasons:

1. The same arguments hold true here that are used for b. above except on a wider scope than just the environment.

2. Participation in public policy development groups or associations allows the discussion of best practices to reduce overall costs.

e. Mge/Part In Legislative Affairs.

Kentucky Power's customers benefit from our activities in legislative affairs for the following reasons:

1. If proposed or pending legislation would cause unnecessary increases in our cost of doing business, we're in a position to discuss that with legislators or their staff to assure the legislators understand the impact of the legislation on their constituents.

2. Legislators are not experts in every field of business. As legislation is introduced that would adversely affect Kentucky Power's ability to control costs for their customers, with a developed relationship and understanding of the legislative process, we're more likely to control those costs.

3. The best practice argument applies here as well. By participating in legislative affairs groups or committees, we can learn cost saving approaches used successfully in other jurisdictions and suggest them in Kentucky.

f. Manage and Provide Branding

Kentucky Power's customers benefit from branding for the following reasons:

1. With a better developed relationship of trust with the customer base through branding, you're more likely to learn of potential safety and reliability issues sooner. That information allows you to better control overtime or damage costs.

2. That same trust relationship built through branding encourages customers to ask questions concerning their use of electricity which can lead to a more efficient use in the home, business or industrial setting.

WITNESS: Ranie K Wohnhas, Timothy C Mosher

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Item 99. Based on Kentucky Power's response, would it agree that the test-year expenses for REV1 Power Services Inc. and Area Land Surveys should be excluded for rate-making purposes? Explain the response.

RESPONSE

Kentucky Power does not agree that the test-year expenses for REV 1 Power Services, Inc. of $12,930 and Area Land Surveys of $10,333 should be excluded for rate-making purposes. Even if the expenses may not be on-going they are representative of regularly recurring expenses necessary to provide service. Kentucky Power should have the opportunity to recover a reasonable level of expenses based upon a given test year which includes both on-going expenses and other expenses incurred in the test year necessary to provide service.

WITNESS: Ranie K Wohnhas

Kentucky Power Company

REQUEST

Refer to the response to the Staff's Second Request, Items 105 and 106.

a. Compare the actual 2005 cost levels for Kentucky Power's pension and post-retirement, non-union benefits with the 2005 cost levels contained in the last actuarial valuation reports prior to 2005.

b. Is it correct that the actuarial valuation reports show costs in 2006 for Kentucky Power's pension and post-retirement, non-union benefits that are lower than the 2005 levels?

RESPONSE

a. Actual 2005 costs for Kentucky Power Company's pensions are approximately $112,000 higher than the estimated 2005 costs per the 2004 Actuarial Report. The main cause is increased amortization of actuarial losses, partially offset by the benefit of additional investment return on the substantial discretionary contributions made in each calendar quarter of 2005. Actual 2005 costs for Kentucky Power Company's postretirement benefits are approximately $1,330,000 lower than the estimated 2005 costs per the 2004 Actuarial Report. The main cause of the decline is the approximately $936,000 Medicare subsidy benefit that was not included in the 2004 Actuarial Report's estimated 2005 cost.

b. The 2005 Actuarial Report shows estimated 2006 costs that are lower than actual 2005 costs because of the effect of increased investment return on larger trust fund balances. Without the substantial discretionary 2005 quarterly contributions, estimated cost for 2006 would be greater than 2005 actual cost. The Company's responses to Staff's Second Request, Items 105 and 106 discuss a variety of reasons that estimated costs for future years are not certain enough to use to modify test year expenses. Recent reviews indicate that both investment return and interest rates, two of the more significant assumptions, have been worse than expected so far this year, which would have the effect of increasing 2006 cost.

WITNESS: Hugh McCoy

Kentucky Power Company

REQUEST

Refer to the response to the AG's First Request, Item 14(b).

a. Was Kentucky Power aware that the Commission has found in previous rate cases that the balance of prepayments included in the utility's rate base does not include any prepayment balance associated with the PSC Assessment? Explain the response.

b. Explain why Kentucky Power believes the PSC Assessment should be included in the prepayments balance included in its rate base.

RESPONSE

a. No. The Company has not reviewed each of the Commission's previous rate case orders.

b. The Company believes the PSC assessment should be included in the prepayments balance included in its rate case because it, like all other prepayments, represents an asset of the Company. The Company's prepayment balance of $661,934 in this rate case does not include any prepayment of PSC assessments.

WITNESS: Ranie K Wohnhas