

Kentucky Power Company  
Annualization of Wages and Salaries  
Test Year Twelve Months Ended 6/30/2005

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Workpaper S-4  
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Ln No (1)	Month / Year (2)	Monthly Increase Granted (3)	Number Of Month Adjusted (4)	Total Adjustment Required to Annualize Test Year Increases (C 3 X C 4) (5)
1	Jul '04	\$602	0	\$0
2	Aug '04	\$5,505	1	\$5,505
3	Sep '04	\$700	2	\$1,400
4	Oct '04	\$396	3	\$1,188
5	Nov '04	\$439	4	\$1,756
6	Dec '04	\$1,733	5	\$8,665
7	Jan '05	\$106,141	6	\$636,846
8	Feb '05	\$14,564	7	\$101,948
9	Mar '05	\$2,308	8	\$18,464
10	Apr '05	\$32,687	9	\$294,183
11	May '05	\$27,832	10	\$278,320
12	Jun '05	<u>\$0</u>	<u>11</u>	<u>\$0</u>
13	Total Wage and Salary Annualization			\$1,348,275
14	Increase Wages and Salaries Applicable to O&M (Ln 13 x 67.65%)			\$912,108
15	Allocation Factor - OML			<u>0.991</u>
16	KPSC Jurisdictional Amount (Ln 14 X Ln 15)			<u><u>\$903,899</u></u> (13A)

Witness: R. K. Wohnhas

Kentucky Power Company  
 Annualization of Employee Benefit Plan Costs  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)	<u>Adjustment</u> (4)
1	Annualization of June 2005 Monthly Medical Plan Costs (\$279,891 x 12)	\$3,358,692	
2	Medical Plan Costs for Twelve Months Ended 6/30/2005	<u>\$3,118,484</u>	
3	Adjustment to Test Year Medical Plan Cost		\$240,208
4	Annualization of June 2005 Life Insurance Cost (\$9,893 x 12)	\$118,716	
5	Life Insurance Cost for Twelve Months Ended 6/30/2005	<u>\$93,378</u>	
6	Adjustment to Test Year Life Insurance Costs		\$25,338
7	Annualization of June 2005 Dental Plan Costs (\$16,831 x 12)	\$201,972	
8	Dental Plan Costs for Twelve Months ended 6/30/2005	<u>\$184,881</u>	
9	Adjustment to Test Year Dental Plan Costs		\$17,091
10	Annualization of June 2005 Retirement Plan Costs (\$125,499 x 12)	\$1,505,988	
11	Retirement Plan Costs for Twelve Months Ended 6/30/2005	<u>\$1,038,398</u>	
12	Adjustment to Test Year Retirement Plan Costs		\$467,590
13	Annualization of June 2005 Long Term Disability Ins Cost (\$16,390 X 12)	\$196,680	
14	LTD Ins Prem Costs for Twelve Months Ended 6/30/2005	<u>\$118,480</u>	
15	Adjustment to Test Year LTD Ins Prem Cost		\$78,200
16	Annualization of June 2005 OPEB Costs (\$183,668 x 12)	\$2,204,016	
17	OPEB Costs for the Twelve Months Ended 6/30/2005	<u>\$2,552,060</u>	
18	Adjustment to Test Year OPEB Cost		<u>(\$348,044)</u>
19	Total Employee Benefit Plan Cost Adjustments (Ln 3 + Ln 6 + Ln 9 + Ln 12 + Ln 15 + Ln 18)		<u>\$480,383</u>
20	Employee Benefit Plan Applicable to O&M ( Ln 19 x 67.65%)		\$324,979
21	Allocation Factor - OML		<u>0.991</u>
22	KPSC Jurisdictional Amount (Ln 20 x 0.991)		<u>\$322,054</u>

Witness: R. K. Wohnhas

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**Kentucky Power Company**  
**Annualization of FICA Expense for Test Year Ended 6/30/2005**

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<u>Ln</u> <u>No</u> <u>(1)</u>	<u>Description</u> <u>(2)</u>	<u>Amount</u> <u>(3)</u>
	Rate:	
1	OASDI          6.20%	
2	Medicare       1.45%	
3	Total           7.65%	
	New Subject Base:	
4	OASI            \$90,000	
5	Medicare      No limit	
6	Annualized Wage and Salary Increase Paid Less Than \$90,000	\$1,312,453
7	June 30, 2005 FICA Rate	7.65%
8	Calculated FICA Tax on Line 6 above	\$100,403
9	Annualized Wage & Salary Increase Paid above \$90,000	\$35,822
10	June 30, 2005 FICA Rate for Wages Paid above \$90,000	1.45%
11	Calculated FICA Tax on Line 9 above	\$519
12	Total Calculated Increase in FICA Tax at June 30, 2005 Rate (Ln 8 + Ln 11)	\$100,922
13	FICA Applicable to O&M	67.65%
14	Adjustment to FICA Expense	\$68,274
15	Allocation Factor - OML	0.991
16	KPSC Jurisdictional Amount (Ln 14 x Ln 15)	\$67,660

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Witness: R. K. Wohnhas

Kentucky Power Company  
 Annualization of Savings Plan Costs  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Base Payroll Test Year Ended 6/30/2005	\$25,146,566
2	Contributions Test Year Ended 6/30/2005	<u>\$1,109,927</u>
3	Percent of Contribution to Payroll (Ln 2 / Ln 1)	4.414%
4	Wage & Salary Annualization (WP S-4, P 3, Ln 13)	<u>\$1,348,275</u>
5	Additional Contributions for Wage & Salary Annualized (Ln 3 x Ln 4)	<u>\$59,513</u>
6	Increase Savings Plan Costs Applicable to O&M (Ln 5 x 67.65 %)	\$40,261
7	Allocation Factor - OML	<u>0.991</u>
8	KPSC Jurisdictional Amount (Ln 6 x Ln 7)	<u>\$39,899</u> (13D)

Witness: R. K. Wohnhas

Kentucky Power Company  
 Net Merger Savings Adjustment  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Add Back Customer's Test Year Merger Revenue Credit	\$4,018,275
	Less:	
2	Add Back Year 5's Net Merger Savings <sup>1/</sup>	\$7,385,000 (14-1)
3	State Income Tax	(\$242,304)
4	Federal; Income Tax	(\$1,093,547)
5	Net Electric Operating Income	(\$2,030,874) (14-2)
6	Allocation Factor - SPECIFIC	1.000
7	KPSC Jurisdictional Amount (Ln 2 x Ln 3)	(\$2,030,874)

<sup>1/</sup> Pursuant to Commission's June 14, 1999  
 Order in Case No. 99-149, pg. 4 of Settlement Agreement

(14) =

7,385,000 / 8 = 923,125

Witness: E. K. Wagner

Kentucky Power Company  
 Recovery of Commission Mandated Consultants Costs  
 Pursuant to KRS 278.255 ( 3 )  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Total Consultant Cost of 2002 KPSC Management Audit	\$144,811
2	Total Consultant Cost of Assessment of Kentucky's Transmission System Vulnerability to Electrical Disturbances	\$19,937
3	Total Consultant Cost of 161 Kv Transmission Line Estimate	<u>\$40,792</u>
4	Total Consultants Cost (Ln 1 + Ln 2 + Ln 3)	<u>\$205,540</u>
5	Annual Amortization (36 Month Period)	\$68,513
6	Less: Consultants Costs in Test Year	<u>\$19,937</u>
7	Adjustment to Test Year O&M Expense	\$48,576
8	Allocation Factor - SPECIFIC	<u>1.000</u>
9	KPSC Jurisdictional Amount (Ln 7 x Ln 8)	<u>\$48,576</u> (16-1)

(16) =  
 $48,576 / 8 = 6.072$

Witness: E. K. Wagner

Kentucky Power Company  
Rate Case Expense Adjustment  
Test Year Twelve Months Ended 6/30/2005

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Ln	<u>No</u> <u>Description</u>	<u>Amount</u>
(1)	(2)	(3)
	Estimated Cost:	
1	Legal Expense	\$250,000
2	Other Professional Services	\$85,700
3	Publication of Notices	\$75,000
4	KPCo Overtime Labor and Out-of-Pocket Expenses	\$20,000
5	Total Estimated Cost	<u>\$430,700</u>
6	Annual Amortization (36 month Amort. Period)	\$143,567
7	Less: Rate Case Expense in Test Year	<u>\$0</u>
8	Adjustment to Test Year O&M Expense (Ln 6 - Ln 7)	\$143,567
9	Allocation Factor - SPECIFIC	<u>1.000</u>
10	KPSC Jurisdictional Amount (Ln 8 x Ln 9)	<u>\$143,567</u> (17-1)

(17) =  
 $143,567 / 8 = 17,946$

Witness: E. K. Wagner

Kentucky Power Company  
 Annualized Lease Costs  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Annualization of June 2005 Monthly Costs (\$277,873 x 12)	\$3,334,476
2	Lease Expense in the Test Year 6/30/2005	<u>\$3,315,751</u>
3	Adjustment to Test Year Lease Expense (Ln 1 - Ln 2)	<u>\$18,725</u>
4	Adjustment Applicable to O&M (Ln 3 x 67.65%)	\$12,667
5	Allocation Factor - GP-TOT	<u>0.990</u>
6	KPSC Jurisdictional Amount (Ln 4 x Ln 5)	<u><u>\$12,540</u></u> (18-1)

(18) =  
 $12,540 / 8 = 1,568$

Witness: R. K. Wohnhas



**Kentucky Power Company**  
**Adjustment to Eliminate Advertising Expense**  
**Pursuant to Commission Regulation 807 KAR 5:016 Section 4 (1)**  
**Test Year Twelve Months Ended 6/30/2005**

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Test Year Advertising Expense	<u>\$250,136</u>
2	Total Advertising Expense to Exclude	(\$30,262)
3	Allocation Factor	<u>1.000</u>
4	KPSC Jurisdictional Amount (Ln 2 x Ln 3)	<u>(\$30,262)</u> (19-1)

(19) =

(30,262) / 8 = (3,783)

Witness: R. K. Wohnhas

**Kentucky Power Company  
Normalization of Storm Damage Expense  
Test Year Twelve Months Ended 6/30/2005**

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Ln No (1)	Twelve Months Ended (2)	Storm Damage Expense Excl. In-House Labor (3)	Constant Dollar Index <sup>1/</sup> (4)	Expense in 2005 Dollars (5)
1	June 2003	\$2,949,246	1.02	\$3,022,067
2	June 2004	\$2,751,725	1.00	\$2,751,725
3	June 2005	\$576,808	1.00	<u>\$576,808</u>
4	3-Year Total Storm Damage			<u>\$6,350,600</u>
5	3-year Average (Ln 4 / 3)			\$2,116,867
6	Test Year Storm Damage Expense			<u>\$576,808</u>
7	Adjustment to O&M for Storm Damage Normalization			\$1,540,059
8	Allocation Factor - GP-TOT			<u>0.99</u>
9	KPSC Jurisdictional Amount (Ln 7 x Ln 8)			<u>\$1,524,658</u> (20.1)

(20) =

$$1,524,658 / 8 = 190,582$$

<sup>1/</sup> Handy-Whitman Contract Labor Index  
Reference E-2 Line 42  
2003/Jan 324  
2004/Jan 332  
2005/Jan 332

Witness: E. Phillips / E. K. Wagner

Kentucky Power Company  
 Adjustment to Include in Test Year Operating Expense  
 the Interest Expense Associated with Customer Deposits  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Customer Deposits at 6/30/2005	\$10,541,285
2	Interest at 6%	<u>\$632,477</u>
3	Adjustment to O&M Expense	\$632,477
4	Allocation Factor - SPECIFIC	<u>1,000</u>
5	KPSC Jurisdictional Amount Ln 3 X Ln 4)	<u>\$632,477</u> (22-1)

(22) =

$$632,477 / 8 = 79,060$$

Witness: R. K. Wohnhas

Kentucky Power Company  
Net Line of Credit Fee  
Test Year Twelve Months Ended 6/30/2005

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<u>Ln</u> <u>No</u> (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Actual Net Line of Credit Fee Recorded for 12 Mos. Ended 6/30/05	\$382,126
2	Allocation Factor - GP-TOT	<u>0.990</u>
3	KPSC Jurisdictional Amount (Ln 1 x Ln 2)	<u>\$378,305</u> (24-1)

(24) =

$$378,305 / 8 = 47,288$$

Witness: E. K. Wagner

Kentucky Power Company  
 Revenue Customer Annualization  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Amount</u> (3)
1	Electric Revenues	\$195,124
	<u>Less:</u>	
2	Operation & Maintenance Expense *	\$142,148 <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">25.1</span>
3	State Income Tax	\$3,813
4	Federal Income Tax	\$17,207
5	Net Electric Operating Income	\$31,956
6	Allocation Factor - SPECIFIC	1.000
7	KPSC Jurisdictional Amount (Ln 5 x Ln 6)	\$31,956

25 =

$142,148 / 8 = 17,769$

\* Test Year O&M Expenses were 72.85% of the test year revenues.

Witness: D. M. Roush

Kentucky Power Company  
System Sales Adjustment  
Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	Month (2)	Test Year System Sales Profit Level (3)	Adjustment to Reflect Enviro. Costs Allocated to Sys Sales (4)	Adjusted Test Year System Sales Profit Level (5)	New System Sales Tariff Base (6)	Adjustment to Test Year Level (7) = (6) - (3)
1	July 2004	\$4,068,332	\$605,999	\$3,462,333	\$2,658,364	(\$1,409,968)
2	August 2004	\$2,871,664	\$485,338	\$2,386,326	\$1,660,434	(\$1,211,230)
3	September 2004	\$1,922,864	\$572,105	\$1,350,759	\$1,497,772	(\$425,092)
4	October 2004	\$67,121	\$388,837	-\$321,716	\$950,190	\$883,069
5	November 2004	\$1,000,703	\$0	\$1,000,703	\$1,258,779	\$258,076
6	December 2004	\$1,743,635	\$0	\$1,743,635	\$2,025,256	\$281,621
7	January 2005	\$3,674,868	\$0	\$3,674,868	\$2,661,693	(\$1,013,175)
8	February 2005	\$1,840,112	\$0	\$1,840,112	\$2,236,268	\$396,156
9	March 2005	(\$389,264)	\$0	-\$389,264	\$1,732,591	\$2,121,855
10	April 2005	\$3,333,982	\$0	\$3,333,982	\$2,706,860	(\$627,122)
11	May 2005	\$3,622,195	\$0	\$3,622,195	\$2,365,563	(\$1,256,632)
12	June 2005	\$3,151,393	\$0	\$3,151,393	\$3,101,556	(\$49,837)
13	Total	<u>\$26,907,605</u>	<u>\$2,052,279</u>	<u>\$24,855,326</u>	<u>\$24,855,326</u>	<u>(\$2,052,279)</u>
14	Allocation Factor - EAF					<u>0.987</u>
15	KPSC Jurisdictional O&M Adjustment (Ln 13 x Ln 14)					<u>\$2,025,599</u> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">26-1</span>

26 =

2,025,599 / 8 = 253,200

Witness : E. K. Wagner

Kentucky Power Company  
 Coal Stock Adjustment  
 Big Sandy Plant  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	Description (2)	Tons (3)	Average \$/Ton (4)	Amount (5)
1	Balance End of Test Year	<u>207,146</u>	<u>\$49.32</u>	<u>\$10,216,763</u>
2	Daily Burn Rate	8,000		
3	Days Supply on Hand (Ln1/Ln2)	26		
4	Day Supply Requested	<u>35</u>		
5	Fuel Stock Level (Ln 4 x Ln 2)	<u>280,000</u>	<u>\$49.32</u>	<u>\$13,809,600</u>
6	Adjustment to Test Year End Coal Stock (Ln 5 - Ln 1)	<u><u>72,854</u></u>		<u><u>3,592,837</u></u>
7	Allocation Factor - PDAF			<u>0.986</u>
8	KPSC Jurisdictional Amount (Ln 6 x Ln 7)			<u><u>\$3,542,537</u></u> (9)

Witness: E. K. Wagner

Kentucky Power Company  
Reliability Adjustment  
Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	<u>Description</u> (2)	<u>Annual Expense</u> (3)	<u>Amount</u> (4)
1	Year One O&M Expenditures	\$5,750,000	
2	Year Two O&M Expenditures	\$6,120,000	
3	Year Three O&M Expenditures	<u>\$6,500,000</u>	
4	Total Expenditures	<u><u>\$18,370,000</u></u>	
5	Three Year Average (Ln 4 / 3)		\$6,123,333
6	Allocation Factor - GP - T&D		<u>0.992</u>
7	KPSC Jurisdictional Amount (Ln 5 x Ln 6)		<u><u>\$6,074,346</u></u> (28-1)
		<u>Expenditure</u>	(28) = 6,074,346 / 8 = 759.293
			<u>Average Amount Invested</u>
8	Year One Associated Capital	\$3,600,000	\$1,800,000
9	Year Two Associated Capital	\$3,770,000	\$5,485,000
10	Year Three Associated Capital	<u>\$3,930,000</u>	<u>\$9,335,000</u>
11	Total	<u><u>\$11,300,000</u></u>	<u><u>\$16,620,000</u></u>
12	Three Year Average (Ln 11 / 3)		\$5,540,000
13	Allocation Factor - GP-TOT		<u>0.990</u>
14	KPSC Jurisdictional Amount (Ln 12 X Ln 13)		<u><u>\$5,484,600</u></u> (3)

Witness: E Phillips / E. K. Wagner



Kentucky Power Company  
 AEP Pool Capacity Adjustment for Known Additions  
 Test Year Twelve Months Ended 6/30/2005

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Ln No	Month	Year	Test Year AEP Pool Capacity Cost	Effect of the Addition of CSP's 830 MW Generating Unit	Effect of the Addition of APCo's 481 MW Generating Unit	Net Effect of the Addition of 289 MW of Load to CSP's System	Effect of Removing 250 MW from CSP's Capacity	Annualize Load Changes	Adjusted Test Year AEP Pool Capacity Costs	AEP Pool Capacity Costs Test Year Adjustment (Col 10 - Col 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	July	2004	\$1,538,912	\$442,108	\$233,201	(\$21,937)	(\$118,135)	\$1,189,905	\$3,264,054	\$1,725,142
2	August	2004	\$1,459,267	\$414,197	\$216,250	(\$20,244)	(\$109,394)	\$1,145,432	\$3,105,508	\$1,646,241
3	September	2004	\$1,831,044	\$438,137	\$232,251	(\$25,553)	(\$117,822)	\$775,087	\$3,133,144	\$1,302,100
4	October	2004	\$1,857,139	\$441,859	\$234,595	(\$25,924)	(\$119,019)	\$772,411	\$3,161,061	\$1,303,922
5	November	2004	\$1,793,310	\$424,546	\$224,542	(\$24,769)	(\$113,867)	\$750,626	\$3,054,388	\$1,261,078
6	December	2004	\$1,864,356	\$425,591	\$218,676	(\$23,796)	(\$110,502)	\$815,697	\$3,190,022	\$1,325,666
7	January	2005	\$2,484,659	\$462,828	\$250,542	(\$20,589)	(\$127,300)	\$14,153	\$3,064,293	\$579,634
8	February	2005	\$3,034,222	\$480,388	\$263,193	(\$21,171)	(\$133,939)	(\$594,507)	\$3,028,166	(\$6,056)
9	March	2005	\$3,178,613	\$507,372	\$279,203	(\$22,501)	(\$142,174)	(\$626,910)	\$3,173,603	(\$5,010)
10	April	2005	\$3,240,968	\$515,256	\$282,941	(\$22,782)	(\$144,034)	(\$637,156)	\$3,235,193	(\$5,775)
11	May	2005	\$3,249,662	\$524,540	\$290,344	(\$23,458)	(\$147,968)	(\$646,705)	\$3,246,415	(\$3,247)
12	June	2005	\$3,218,782	\$519,284	\$287,357	(\$23,214)	(\$146,441)	(\$640,291)	\$3,215,477	(\$3,305)
13	Total		<u>\$28,750,934</u>	<u>\$5,596,086</u>	<u>\$3,013,095</u>	<u>(\$275,938)</u>	<u>(\$1,530,595)</u>	<u>\$2,317,742</u>	<u>\$37,871,324</u>	<u>\$9,120,390</u>
14	Allocation Factor - PDAF									<u>0.986</u>
15	KPSC Jurisdictional Amount (Ln 13 x Ln 14)									<u>\$8,992,705</u> (29-1)

Note:

- Column 4 Source: July 2004 through June 2005 Interchange Power Statement
- Column 5 Incremental Effect of adding CSP's 830 MW Generating Unit for the entire test year
- Column 6 Incremental Effect of adding APCo's 481 MW Generating Unit for the entire test year
- Column 7 Incremental Effect of adding 289 MW of load to the CSP's System for the entire test year
- Column 8 Incremental Effect of Removing 250 MW from CSP Member Primary Capacity for the entire year
- Column 9 Incremental Effect of current and Future Load Changes on Member Load Ratio for the entire year (annualized)
- Column 10 The Adjusted Test Year AEP Pool Capacity Charge Reflecting the Interaction of all Changes

(29) =  
 $8,992,705 / 8 = 1,124,088$

KPSC Case No. 2005-0034  
 Commission Staff 2nd Set Data Requests  
 Order dated November 10, 2005  
 Item No. 13  
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Witness: E. K. Wagner

Kentucky Power Company  
 Annualization of Vehicle Fuel Costs  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	Description (2)	Amount (3)	Total (4)
1	Vehicle Fuel Cost for June 2005	\$88,488	
2	Number of Months	<u>12</u>	
3	Annualized Vehicle Fuel Cost (Ln 1 X Ln 2)		\$1,061,856
4	Vehicle Fuel Cost Twelve Months ending June 30, 2005		<u>\$862,596</u>
5	Increase Vehicle Fuel Cost (Ln 3 - Ln 4)		<u>\$199,260</u>
6	Increase Vehicle Fuel Cost Applicable to O&M (Ln 4 X 67.65)		\$134,799
7	Allocation Factor - O&M		<u>0.988</u>
8	KPSC Jurisdictional Amount		<u>\$133,181</u> (30-1)

(30) =

$133,181 / 8 = 16,648$

Witness: R. K. Wohnhas

Kentucky Power Company  
 Elimination of FERC Assement Fees  
 Test Year Twelve Months Ended 6/30/2005

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Ln No (1)	Month / Year (2)	Test Year Amount (3)	Adjustment Required (4)
1	July 2004	\$20,790	(\$20,790)
2	August 2004	\$3,836	(\$3,836)
3	September 2004	\$3,835	(\$3,835)
4	October 2004	\$0	\$0
5	November 2004	\$0	\$0
6	December 2004	\$0	\$0
7	January 2005	\$0	\$0
8	February 2005	\$0	\$0
9	March 2005	\$0	\$0
10	April 2005	\$0	\$0
11	May 2005	\$0	\$0
12	June 2005	\$0	\$0
13	Total	<u>\$28,461</u>	
14	Adj. Required to Remove FERC Fees from Test Year		(\$28,461)
15	Allocation Factor GP - TRANS		<u>0.986</u>
16	KPSC Jurisdictional Amount (Ln 14 X Ln 15)		<u>(\$28,063)</u> (31-1)

(31) =

(28,063) / 8 = (3,508)

Witness: E. K. Wagner

**Kentucky Power Company  
Adjustment to Reflect Normalization of  
PJM Net Expansion Expenses  
Test Year Twelve Months Ended 6/30/2005**

**Section V  
Worksheet S-4  
Page 35**

Ln No (1)	Month / Year (2)	Amortization of PJM Integration Test Year Amount (3)	Going Forward Monthly Normalized Amount (4)	Adjustment Required (5)=(Col 4 - 3)
1	July 2004	\$0	\$12,761	\$12,761
2	August 2004	\$0	\$12,793	\$12,793
3	September 2004	\$0	\$13,242	\$13,242
4	October 2004	\$0	\$13,601	\$13,601
5	November 2004	\$0	\$13,735	\$13,735
6	December 2004	\$0	\$13,924	\$13,924
7	January 2005	\$14,161	\$13,695	(\$466)
8	February 2005	\$14,161	\$13,649	(\$512)
9	March 2005	\$14,173	\$13,719	(\$454)
10	April 2005	\$14,173	\$13,605	(\$568)
11	May 2005	\$14,173	\$13,553	(\$620)
12	June 2005	<u>\$14,173</u>	<u>\$13,210</u>	<u>(\$963)</u>
13	Total	<u>\$85,014</u>	<u>\$161,487</u>	<u>\$76,473</u>
14	Adj. To Reflect Normalization of PJM Net Expansion Exp. in Test Year			\$76,473
15	Allocation Factor GP - TRANS			<u>0.986</u>
16	KPSC Jurisdictional Amount (Ln 14 X Ln 15)			<u>\$75,402</u> (33-1)

Witness: D. W. Bethel

(33) =

75,402 / 8 = 9,425

Kentucky Power Company  
 Adjustment to Reflect RTO Formation Costs  
 Over a Fifteen Year Period  
 Test Year Twelve Months Ended 6/30/2005

Section V  
 Workpapers-4  
 Page 36

Ln No (1)	Month / Year (2)	Test Year Amount (3)	Monthly Amortization Amount (4)	Adjustment Required (5)
1	July 2004	\$0	\$12,761	\$12,761
2	August 2004	\$0	\$12,793	\$12,793
3	September 2004	\$0	\$13,242	\$13,242
4	October 2004	\$0	\$13,601	\$13,601
5	November 2004	\$0	\$13,735	\$13,735
6	December 2004	\$0	\$13,924	\$13,924
7	January 2005	\$10,456	\$13,695	\$3,239
8	February 2005	\$10,259	\$13,649	\$3,390
9	March 2005	\$10,260	\$13,719	\$3,459
10	April 2005	\$10,261	\$13,605	\$3,344
11	May 2005	\$10,261	\$13,553	\$3,292
12	June 2005	<u>\$10,597</u>	<u>\$13,210</u>	<u>\$2,613</u>
13	Total	<u>\$62,094</u>	<u>\$161,487</u>	<u>\$99,393</u>
14	Adj. Req. to Reflect Amort. RTO Formation Costs in Test Year			\$99,393
15	Allocation Factor GP - TRANS			<u>0.986</u>
16	KPSC Jurisdictional Amount (Ln 14 X Ln 15)			<u>\$98,001</u> (34-1)

(34) =

$98,001 / 8 = 12,250$

Witness: D. W. Bethel

Kentucky Power Company  
 Big Sandy Plant Maintenance Normalization  
 Test Year Twelve Months Ended 6/30/2005

Section V  
 WorkpaperS-4  
 Page 38

Ln No (1)	Twelve Month Steam Power Maintenance Expense (2)	Expense Amount (3)	Constant Dollar Index 1/ (4)	Expense in 2005 Dollars (5)
1	June 30, 2005	\$12,392,698	1.000	\$12,392,698
2	June 30, 2004	\$11,187,582	1.000	\$11,187,582
3	June 30, 2003	\$17,222,534	1.019	<u>\$17,549,762</u>
4	3 - Year Total			<u>\$41,130,042</u>
5	Three Year Average (Ln 4 / 3)			\$13,710,014
6	Test Year Steam Power Maintenance Expense			<u>\$12,392,698</u>
7	Adjustment to Test Year Steam Power Maintenance Expense			\$1,317,316
8	Allocation Factor - PDAF			<u>0.986</u>
9	KPSC Jurisdictional Amount (Ln 7 X Ln 8)			<u>\$1,298,874</u> (35-1)

(35) =

1/ Handy-Whitman Total Steam Production Plant  
 Reference E-2 Line 6  
 2005/Jan 420  
 2004/Jan 420  
 2003/Jan 412

$$1,298,874 / 8 = 162,359$$

Witness: E. K. Wagner

Kentucky Power Company  
 Prepayment of Pension Funding in Excess of O & M Expense  
 Test Year Twelve Months Ended 6/30/2005

Section V  
 WorkpaperS-4  
 Page 40

Ln No (1)	<u>Description</u> (2)	<u>Expense Amount</u> (3)
1	March 2005 Contribution	\$3,045,764
2	June 2005 Contribution	<u>\$3,045,764</u>
3	Total Contribution	<u>\$6,091,528</u>
4	Pension Funding Applicable to O&M (Ln 3 X 67.65%)	\$4,120,919
5	Allocation Factor - OML	<u>0.991</u>
6	KPSC Jurisdictional Amount (Ln 4 X Ln 5)	<u><u>\$4,083,831</u></u> (6)

Witness: E. K. Wagner

Kentucky Power Company  
 Normalization of PJM Administrative Charges  
 Test Year Twelve Months Ended 6/30/2005

Section V  
 WorkpaperS-4  
 Page 41

Ln No (1)	Month / Year (2)	Test Year Amount (3)	2006 Monthly Forecast Amount (4)	Required Adjustment (5)
1	July 2004	\$0	\$294,154	\$294,154
2	August 2004	\$0	\$294,154	\$294,154
3	September 2004	\$0	\$294,154	\$294,154
4	October 2004	\$225,924	\$294,154	\$68,230
5	November 2004	\$230,904	\$294,154	\$63,250
6	December 2004	\$243,851	\$294,154	\$50,303
7	January 2005	\$260,773	\$294,154	\$33,381
8	February 2005	\$252,236	\$294,154	\$41,918
9	March 2005	\$311,050	\$294,154	(\$16,896)
10	April 2005	\$234,611	\$294,154	\$59,543
11	May 2005	\$228,439	\$294,154	\$65,715
12	June 2005	<u>\$227,763</u>	<u>\$294,154</u>	<u>\$66,391</u>
13	Total	<u>\$2,215,551</u>	<u>\$3,529,848</u>	
14	Adj. Required to Normalize Test Year PJM Charges			\$1,314,297
15	Allocation Factor GP-TRANS			<u>0.986</u>
16	KPSC Jurisdictional Amount (Ln 14 X Ln 15)			<u>\$1,295,897</u>

37-1

37 =

1,295,897 / 8 = 161,987

Witness: R. W. Bradish





**Kentucky Power Company**

**REQUEST**

Refer to the Application, Section V, Workpaper S-4, pages 1 through 41 of 41. Provide the calculations, workpapers, assumptions, and other supporting documentation used to determine the proposed adjustments described on these pages. If the calculation, workpaper, assumption, or supporting documentation has already been supplied, provide the appropriate cross-reference to the record.

**RESPONSE**

Any calculations, workpapers, assumptions and or supporting documentation associated with Section V, Workpaper S-4 pages 1 through 41 are contained in the respective witnesses testimony and exhibits.

**WITNESS:** Errol K Wagner





## Kentucky Power Company

### REQUEST

Refer to the Application, Section V, Workpaper S-4, page 9 of 41.

- a. Recalculate the Net Merger Savings Adjustment using the format provided in Attachment B, page 1 of 3, of the Stipulation and Settlement Agreement approved by the Commission's June 14, 1999 Order in Case No. 1999-00149. Case No. 1999-00149, Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation Regarding a Proposed Merger.
- b. Explain why the test year merger revenue credit on line 1 of Workpaper S-4, page 9 does not match the Year 5 Customer Net Savings shown on Attachment B, page 2 of 3, of the Stipulation and Settlement Agreement approved in Case No. 1999-00149.

### RESPONSE

- a. Please see the Company's response to AG First Set Item No. 37 b.
- b. Attachment B page 1 of 3 of the Stipulation and Settlement Agreement demonstrates that the amount added back to the test year cost of service is both the customer share of \$4,037,000 and the shareholder portion of \$3,348,000 for a total amount of \$7,385,000 which is the amount on line 2 of Section V, Workpaper S-4, page 9.

WITNESS: Errol K. Wagner



## Kentucky Power Company

### REQUEST

Refer to the Application, Section V, Workpaper S-4, page 16 of 41.

- a. Explain why Kentucky Power believes a 3-year historic average of storm damage expenses is reasonable for this adjustment.
- b. Explain why Kentucky Power believes it is appropriate to use the Handy-Whitman Contract Labor Index to reflect the impact of inflation in this adjustment.
- c. Was Kentucky Power aware that in rate cases during the past 10 years the Commission has adjusted storm damage expenses based on a 10-year historic average with an inflation factor based on the Consumer Price Index – All Urban Customers (“CPI-U”)?
- d. If yes to part (c) above, explain why Kentucky Power chose not to follow established Commission precedent for this adjustment.
- e. Recalculate the storm damages expense adjustment, using a 10-year historic average adjusted for inflation using the CPI-U. The inflation factor is determined by dividing the CPI-U for the base year, the base year will be the 12 months ending June 30, 2005 by the CPI-U for the particular year.

### RESPONSE

- a. A 3-year historical average is used in other AEP jurisdictions. In addition, Kentucky Power's records permit it to separate O&M and capital costs for storm damages only for the past three years.
- b. The Handy-Whitman index is prepared specifically for the electric, gas and water utilities and better reflects electric utility costs rather than a general index such as the Consumer Price Index.
- c. No
- d. N/A

e. For years 1997 through 2002 the Company only had total (Capital and O&M) storm damage expenses. The Company used the storm damage expense for the years 2003 through 2005 to develop a average percentage split between Capital and O&M and used that percentage for the years 1997 through 2002. The Company used the results in the calculation to recalculate the storm damage expense adjustment using a nine year historic average adjusted for inflation using the CPI-U. The results are shown on the attached pages.

**WITNESS:** Errol K Wagner



**Storm Damage Expenses**

**Calculation of O&M Expenses for Calendar Years 1997 - 2000**

***Identifying O&M and Capital Ratios:***

Capital & Retirement Expenses		O&M Expenses	
<u>12-Mo</u>		<u>12-Mo</u>	
<u>Ending</u>	<u>Capital</u>	<u>Ending</u>	<u>O&amp;M</u>
Jun-03	1,504,189	Jun-03	3,335,719
Jun-04	1,047,931	Jun-04	2,880,939
Jun-05	(4,858)	Jun-05	615,413
Total	2,547,263	Total	6,832,071

Total Expenses (including Capital, Transmission & Distribution Operation & Maintenance,  
 Total Admin & General Expenses, & Other Balance Sheet Accounts)

---

<u>12-Mo</u>	<u>Total</u>
<u>Ending</u>	<u>Expenses</u>
Jun-03	4,839,908
Jun-04	3,928,869
Jun-05	610,555
Total	9,379,332

To achieve O&M and Capital Ratio:

Total Capital	2,547,263	Total O&M	6,832,071
Total Costs	9,379,332	Total Costs	9,379,332
	0.27158 Capital		0.72842
	1		1
	0.27158		0.72842
	0.72842 O&M		0.27158 Capital

***Identifying Labor Costs:***

<u>12-Mo</u>	<u>Total</u>	<u>12-Mo</u>	<u>O&amp;M</u>
<u>Ending</u>	<u>Labor</u>	<u>Ending</u>	<u>Labor</u>
Jun-03	504,188	Jun-03	386,473
Jun-04	258,140	Jun-04	129,214
Jun-05	80,644	Jun-05	38,605
Total	842,972	Total O&M Exp.	554,292
Total Expenses	9,379,333	Total O&M Exp.	6,832,070
Labor Ratio	0.08988	Labor Ratio	0.0811309

**Calculation of O&M Expenses for Calendar Years 1997 - 2000**

***Identifying O&M Ratios in total costs for 1997-2000***

<u>Calendar Year</u>	<u>Total Costs</u>	<u>O&amp;M Ratio</u>	<u>Labor Ratio</u>	<u>Storm Damage Expense Excl In-House Labor</u>
1997	1,150,000	0.73	0.92	772,340
1998	865,000	0.73	0.92	580,934
1999	4,076,000	0.73	0.92	2,737,442
2000	1,823,000	0.73	0.92	1,224,327

**Calculation of O&M Expenses for Calendar Years 2001 & 2002**

***Excluding In-House Labor***

<u>Calendar Year</u>	<u>O&amp;M Costs</u>	<u>Labor Ratio</u>	<u>Storm Damage Expense Excl In-House Labor</u>
2001	1,913,000	0.92	1,759,960
2002	1,455,000	0.92	1,338,600

<u>12 Mo</u> <u>Ended</u>	<u>Year</u>	<u>Storm Damage Expense</u> <u>Excl In-House Labor</u>	<u>Constant</u> <u>Dollar Indx*</u>	<u>Expense</u> <u>2005 \$</u>
Calendar	1997	772,340	1.16	895,914
Calendar	1998	580,934	1.11	644,837
Calendar	1999	2,737,442	1.11	3,038,561
Calendar	2000	1,224,327	1.11	1,359,003
Calendar	2001	1,759,960	1.07	1,883,157
Calendar	2002	1,338,600	1.04	1,392,144
June	2003	2,949,246	1.02	3,022,067
June	2004	2,751,725	1	2,751,725
June	2005	576,808	1	<u>576,808</u>
9-Year Total Storm Damage				<u>15,564,216</u>
9-Year Average				1,729,357
Test Year Storm Damage				<u>576,808</u>
Adjustment to O&M				1,152,549
Allocation Factor				<u>0.99</u>
KPSU Jurisdictional Amount				1,141,024

\* Handy Whitman Contract Labor Index

Reference E-2 Line 42

1997/Jan	287
1998/Jan	298
1999/Jan	300
2000/Jan	299
2001/Jan	311
2002/Jan	319
2003/Jan	324
2004/Jan	332
2005/Jan	332

<u>12 Mo Ended</u>	<u>Year</u>	<u>Storm Damage Expense Excl In-House Labor</u>	<u>Constant Dollar Indx*</u>	<u>Expense 2005 \$</u>
Calendar	1997	772,340	1.2155495	938,818
Calendar	1998	580,934	1.1969818	695,367
Calendar	1999	2,737,442	1.1713291	3,206,445
Calendar	2000	1,224,327	1.1331669	1,387,367
Calendar	2001	1,759,960	1.1019371	1,939,365
Calendar	2002	1,338,600	1.0849644	1,452,333
June	2003	2,949,246	1.0606654	3,128,163
June	2004	2,751,725	1.0329822	2,842,483
June	2005	576,808	1	576,808
9-Year Total Storm Damage				<u>16,167,150</u>
9-Year Average				1,796,350
Test Year Storm Damage				<u>576,808</u>
Adjustment to O&M				1,219,542
Allocation Factor				<u>0.99</u>
KPSU Jurisdictional Amount				1,207,347

\* Calculating CPI-U / Inflation Factor

Base Year CPI:U (June 2005) 195.12

<u>Year</u>	<u>CPI:U</u>	<u>Inflation Factor</u>
1997	160.52	1.215549
1998	163.01	1.196982
1999	166.58	1.171329
2000	172.19	1.133167
2001	177.07	1.101937
2002	179.84	1.084964
2003	183.96	1.060665
2004	188.89	1.032982
2005	195.12	1



**Kentucky Power Company**

**REQUEST**

Refer to the Application, Section V, Workpaper S-4, page 19 of 41. Identify the account titles and account numbers where the total amount on line 5, "Booked AFUDC in Test Year," was recorded.

**RESPONSE**

Account 4191000 - Allowance for Other Funds Used During Construction.  
Account 4320000 - Allowance for Borrowed Funds Used During Construction.

Please refer to the Application, Section V, Workpaper S-16, Page 2 of 2, for a breakdown between these two accounts.

**WITNESS:** Ranie K Wohnhas



**Kentucky Power Company**

**REQUEST**

Refer to the Application, Section V, Workpaper S-4, page 31 of 41. Provide the vehicle fuel cost for each month of the test year and for each month subsequent to the test year that is available as of the date of this data request.

**RESPONSE**

Please refer to page 2 of this response for the monthly information requested. In review of this information, it was discovered that the Annualization of Vehicle Fuel Costs (Section V, Workpaper S-4, Page 31 of the filing) was calculated on a 12 ME basis of July 05 by mistake. Please refer to page 3 of this response to review a revised Annualization of Vehicle Fuel Costs calculated correctly on a 12 ME basis of June 05.

**WITNESS:** Ranie K Wohnhas



Kentucky Power Company  
Vehicle Fuel Cost

<u>Month</u>	<u>Fuel Cost</u>	<u>Gallons</u>	<u>Price per Gallon</u>
July 04	29,077	16,386	1.77
Aug 04	66,201	38,048	1.74
Sept 04	84,147	48,384	1.74
Oct 04	81,903	45,753	1.79
Nov 04	67,925	36,214	1.88
Dec 04	74,903	41,994	1.78
Jan 05	46,240	25,455	1.82
Feb 05	41,462	21,436	1.93
Mar 05	43,857	21,648	2.03
Apr 05	71,331	36,979	1.93
May 05	114,465	60,163	1.90
June 05	83,708	42,006	1.99
July 05	87,977	40,384	2.18
Aug 05	98,601	43,361	2.27
Sept 05	119,171	47,294	2.52
Oct 05	95,372	34,604	2.76

**Kentucky Power Company**  
**Annualization of Vehicle Fuel Costs**  
**Test Year Twelve Months Ended 6/30/2005**

**Section V**  
**Workpaper S-4**  
**Page 31**  
**Revised**

<u>Ln</u> <u>No</u> (1)	<u>Description</u> (2)	<u>Amount</u> (3)	<u>Total</u> (4)
1	Vehicle Fuel Cost for June 2005	\$83,708	
2	Number of Months	<u>12</u>	
3	Annualized Vehicle Fuel Cost (Ln 1 X Ln 2)		\$1,004,496
4	Vehicle Fuel Cost Twelve Months Ending June 30, 2005		<u>\$733,888</u>
5	Increase Vehicle Fuel Cost (Ln 3 - Ln 4)		<u>\$270,608</u>
6	Increase Vehicle Fuel Cost Applicable to O&M (Ln 4 X 67.65)		\$183,066
7	Allocation Factor - O&M		<u>0.988</u>
8	KPSC Jurisdictional Amount		<u><u>\$180,869</u></u>

Witness: R.K. Wohnhas



## Kentucky Power Company

### REQUEST

Refer to the Application, Section V, Workpaper S-4, page 38 of 41.

- a. Explain why Kentucky Power believes a 3-year historic average of plant maintenance expense is reasonable.
- b. Explain why Kentucky Power believes it is appropriate to use the Handy-Whitman Total Steam Production Plant Index to reflect the impact of inflation in this adjustment.
- c. Would the CPI-U be a reasonable index to reflect the impact of inflation for this type of expense normalization? Explain the response.
- d. Recalculate the Big Sandy plant maintenance normalization adjustment using a 9-year historic average of expenses and the Handy-Whitman Total Steam Production Plant Index to reflect the impact of inflation.

### RESPONSE

- a. The Company believes a three year history is appropriate to use in establishing base rates because the plant maintenance cycle at Big Sandy is on a three year average and because the facilities located at the Big Sandy Plant have changed greatly in recent years (i.e. all of the environmental investment)
- b. The Handy-Whitman Total Steam Production Plant Index is focused on the total steam production plant costs. It more closely measures the trend in the cost of steam production than does the CPI-U. Some of the items included in the CPI-U are pets and pet products, sports equipment, admissions, tobacco and smoking products, haircuts, and other personal services including funeral expenses. Clearly the Handy-Whitman Total Steam Production Plant Index more closely measures the changing price in steam production than does the CPI-U.
- c. The Company believes the Utility Producer Price Index or the Electric Power Generation, Transmission, and Distribution Producer Price Index would be indices that more closely reflects or measures the changing costs incurred by the utility.
- d. Please see attached.

**WITNESS:** Errol K. Wagner

Kentucky Power Company  
 Steam Generation Maintenance  
 for the Ten Years Ending June 30, 2005

KPSC Case No. 2005-00341  
 Commission Staff 2 nd Set Data Requests  
 Order Dated November 10, 2005  
 Item No. 19  
 Page 2 of 2

<u>Ln No</u>	<u>Twelve Months Ending</u>	<u>Year</u>	<u>Annual Expense Ammount</u>	<u>The Twelve Month June CPI-U Ave. Index</u>	<u>Annual Expense Inflated to June 2005 Dollars</u>	<u>January Handy-Whitman Tot Steam Prod.</u>	<u>Annual Expense Inflated to June 2005 Dollars</u>
1	June 30	2005	\$12,392,638	191.68	\$12,392,638	420	\$12,392,638
2	June 30	2004	\$11,187,582	186.09	\$11,523,648	420	\$11,187,582
3	June 30	2003	\$17,222,534	182.11	\$18,127,589	412	\$17,556,952
4	June 30	2002	\$6,875,589	178.17	\$7,396,941	397	\$7,273,923
5	June 30	2001	\$7,918,982	175.10	\$8,668,821	391	\$8,506,323
6	June 30	2000	\$13,573,360	169.29	\$15,368,549	372	\$15,324,761
7	June 30	1999	\$9,053,976	164.55	\$10,546,740	361	\$10,533,712
8	June 30	1998	\$11,633,311	161.75	\$13,785,923	357	\$13,686,248
9	June 30	1997	\$15,286,274	158.90	<u>\$18,439,729</u>	350	<u>\$18,343,529</u>
10	Total				<u>\$116,250,578</u>		<u>\$114,805,668</u>
11	Nine Year Average				<u><u>\$12,916,731</u></u>		<u><u>\$12,756,185</u></u>



**Kentucky Power Company**

**REQUEST**

Refer to the Application, Section V, Workpaper S-7, page 1 of 5. Explain why it is necessary to assign Kentucky Power's administrative and general expenses to other O&M expense accounts.

**RESPONSE**

The approach of allocating administrative and general expenses to the other O&M expenses based on labor is the approach used by the Company in past rate cases and approved as reasonable by the Commission.

The National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual page 39 states that a portion of administrative and general expenses (Accounts 922-932) should be allocated to demand, customer and energy related costs. The Company's approach accomplishes the above stated goal.

**WITNESS:** Errol K. Wagner





**Kentucky Power Company**

**REQUEST**

Refer to the Application, Section V, Schedule 10. Explain the reference to "Separate Return" for the proposed federal and state income tax adjustment.

**RESPONSE**

This refers to the fact that these taxes are Kentucky Power Company's only, and do not include any other companies' taxes.

**WITNESS:** Errol K Wagner

