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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION JAN 27 2006

PUBLIC SERVICE COMMISSION

In the Matter of:

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

NOTICE OF FILING AND CERTIFICATION OF SERVICE

I hereby give notice that I have filed the original and eight true copies of these Responses to the Request for Information by Kentucky Power Company and by the Public Service Commission through Order dated January 18, 2006, with the Executive Director of the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 this the 26th day of January, 2006 and certify that this same day I have served the parties by mailing a true copy, postage prepaid, to the following:

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And have hand delivered copies to:

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COMMONWEALTH OF KENTUCKY
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In the Matter of:

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

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
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Index of CDs

The following CDs containing responsive information are provided in the Original only of the Response to the Initial Request for Information of Kentucky Power Company to the Attorney General filed with the Commission, and in each set of these Responses sent to those on the service list.

Woolridge KPC Attachments, PDFs, and Spreadsheets

Attachments:

KPC-1-39A.pdf
KPC-1-40A.pdf
KPC-1-41A-Seigel.pdf
KPC-1-42A-Greenspan.pdf
KPC-1-43A-AUS.pdf
KPC-1-44A-Moodys.pdf
KPC-1-45A-McTaggart.pdf
KPC-1-48A-Sharp.pdf
KPC-1-50A-DDMs.pdf
KPC-1-51A-Gordon.pdf
KPC-1-56A.pdf
KPC-1-58A-Illmaneri.pdf
KPC-1-59A-Mehra.pdf
KPC-1-60A-Fama.pdf
KPC-1-62AClaus and Thomas.pdf
KPC-1-63A-Derrig-Orr.pdf
KPC-1-64A-Ibbotson and Chen.pdf
KPC-1-67A-Goedhart.pdf
KPC-1-69A-Einhorn.pdf
KPC-1-71A-Bull.pdf
KPC-1-72A-Graham.pdf
KPC-1-76A-Bower.pdf
KPC-1-81A-Brown.pdf
KPC-1-82A-Carleton.pdf
KPC-1-83A-Roll.pdf

Spreadsheets:

Data1.xls
Data2.xls
Data3.xls
Data4.xls

PDFs:

- RUE-AEE
- RUE-AEP
- RUE-DTE
- RUE-EXC
- RUE-FE
- RUE-WC
- RUE-WEC
- RUE-WPS
- VL-AEE
- VL-AEP
- VL-DTE
- VL-EXC
- VL-FE
- VL-MGEE
- VL-WC
- VL-WEC
- VL-WPS
- YAH-AEE
- YAH -AEP
- YAH -DTE
- YAH -EXC
- YAH -FE
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- YAH -WEC
- YAH -WPS
- ZACKS-AEE
- ZACKS -AEP
- ZACKS -DTE
- ZACKS -EXC
- ZACKS -FE
- ZACKS -WC
- ZACKS -WEC
- ZACKS –WPS

Woolridge KPC Response Attachments

- KPC-1-68A-SSA.pdf
- KPC-1-70A-Amott.pdf
- KPC-1-70B-dimson.pdf
- KPC-1-70C-Philly.pdf

Woolridge Redacted – Forcasted EPS Growth Study

Majoros Attachments for Commission Responses and Company Responses

Attachments for KPC

- Folder: Question 25 Majoros Testimony
- Folder:Workpapers for MJM-3
- Folder: Workpapers for MJM-5
- Folder: Full Version of MJM-4
- Folder: Question 36-Workpapers for MJM-1 and 2

Attachments for Staff

- Folder: Question 11 – full version of MJM-4
- Folder: Question 15 – net Salvage
- Folder: Question 18 – Workpapers for MJM-5 (KPC Q.27)

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
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Witness Responsible:
ROBERT J. HENKES

Question 1: Please reference Henkes testimony, at p. 4, line 5. Please identify and provide a copy of the "other relevant financial documents and data" relied upon in developing this testimony.

Response: The "other relevant financial documents and data" refer to AEP financial reports reviewed by Mr. Henkes on the internet by way of AEP's web site.

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Witness Responsible:
ROBERT J. HENKES

Question 2: Mr. Henkes states beginning at p. 7, line 23, that he "do[es] not believe that an increase in KPCo's retail revenues will result in an associated increase in Ohio and West Virginia franchise taxes." Assuming that a retail rate increase in this proceeding will result in greater Kentucky receipts and taxable income, please explain the reason for this belief regarding the Ohio and West Virginia taxes. Also, please reference any Ohio and/or West Virginia tax codes relied upon for this opinion.

Response: A Kentucky retail rate increase, all other factors remaining equal, will result in a decrease in Ohio and West Virginia franchise taxes due to the lower apportionment to Ohio and West Virginia caused by the increased revenues and income. Also, see KIUC-2-5 and the Company's response to that request.

Mr. Henkes did not rely on any Ohio and West Virginia tax codes for his opinion.

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Witness Responsible:
ROBERT J. HENKES

Question 3: Please reference Henkes testimony, at p. 13, line 4. Please explain what Mr. Henkes means by "known and measurable" in the context of projected financial information.

Response: In Mr. Henkes' opinion, a known and measurable event in the context of projected financial information is an event that incorporates enough certainty with regard to its occurrence and quantification as to allow it to be used to modify test year actual data.

Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

Question 4: Please reference Henkes testimony, at p. 13, lines 10-11. Would a rate recovery rider (*i.e.*, a vegetation surcharge) satisfy Mr. Henkes' concerns about recovering only actual incurred costs associated with implementation of the enhanced vegetation management program? If not, please explain why not.

Response: No. As stated on page 13, lines 12-14 of Mr. Henkes' testimony, it is Mr. Henkes' opinion that, "The rate recovery [for the vegetation management program revenue requirement] should take place in accordance with traditional ratemaking principles in a future base rate review after a showing by the Company that the incremental program costs for which it is seeking rate recovery were prudently incurred."

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Witness Responsible:
ROBERT J. HENKES

Question 5: Please reference Henkes testimony, at p. 14, line 8. Please identify by case style and case number the "recent base rate proceedings involving other Kentucky gas and electric utilities" to which Mr. Henkes refers.

Response: The Commission has ordered the referenced pro forma depreciation reserve adjustment in the most recent two Union Light Heat & Power rate cases, Case Nos. 2005-00042 and 2001-00092 (see KPSC Order page 22 in Case No. 2005-00042 and KPSC Order pages 14-15 in Case No. 2001-00092). The Commission also adopted this same adjustment in an earlier ULH&P rate case, Case No. 92-346 (see KPSC Order pages 3 and 4 in Case No. 92-346). Mr. Henkes also is aware that the Commission adopted the referenced pro forma depreciation reserve adjustment in the most recent two LG&E electric and gas rate cases, Case Nos. 2003-00433 and 2000-080, and in the most recent Kentucky Utilities rate case, Case No. 2003-00434.

Mr. Henkes also points out that, notwithstanding the Company's response to AG-1-11(a), the Company itself proposed this exact same type of pro forma depreciation reserve adjustment in its 1984 rate case, Case No. 9061,[1] and the Commission adopted that proposed adjustment in that case.

[1] See Case No. 9061 filing, Section V, Schedule 2, page 3, col. 7, line 20.

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Witness Responsible:
ROBERT J. HENKES

Question 6: Please reference Henkes testimony, at p. 14, lines 19-23.

a) Please describe in detail the basis, principal or theory behind the use of a 13-month average amount of prepayments.

b) Further, in prior testimony, has Mr. Henkes ever recommended a 13-month average due to fluctuations in the prepayment account balances rather than the test year-end balance where to do so favors the utility company? If so, please provide a copy of such prior testimony.

Response to a: A 13-month average calculates the average from the 1st day of the test year through the last day of the test year, whereas the 12-month average calculates the average from the last day of the first month of the test year through the last day of the test year. The first approach is the more appropriate approach as it uses a more complete test year average. The Commission agrees with this position. See KPSC Order page 28 in LG&E's most recent rate case, Case No. 2003-00433.

Response to b: It is Mr. Henkes' position that if a rate base balance shows significant fluctuations over the course of a test year, the average test year balance should be reflected for ratemaking purposes. Unless there are appropriate reasons for using a test year-end balance, this is the approach that has always been used by Mr. Henkes, to his knowledge. When engaged for a utility rate review, Mr. Henkes performs a balanced, independent review which is not driven by "favoring" any party in the proceeding.

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Witness Responsible:
ROBERT J. HENKES

Question 7: Please reference Henkes testimony, at p. 15, lines 2-3.

a) Please identify the nature and source of the referenced "long-standing" KPSC policy that such [KPSC] assessment balances are not to be considered to be prepayments." Please further articulate the rationale for such policy, if known.

b) Please further state whether Mr. Henkes is aware from his long history of testimony in other states whether other states have a policy to consider regulatory assessment balances as prepayments. If so, please identify each such state.

Response to a: Please refer to the KPSC Order in ULH&P Case No. 2005-0042, pages15-19, for the Commission's long-standing policy with regard to this issue. This Order also provides the rationale for this KPSC policy.

Response to b: Mr. Henkes is not aware of whether other states have a policy to consider regulatory assessment balances as prepayments and has not reviewed this matter.

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Witness Responsible:
ROBERT J. HENKES

Question 8: Please reference Henkes testimony, at p. 15, lines 19-23 and p. 16, lines 1-5.

a) Please describe in detail the basis, principal or theory behind the use of a 13-month average amount of materials and supplies.

b) Further, in prior testimony, has Mr. Henkes ever recommended a 13-month average due to fluctuations in the materials and supplies account balances rather than the test year-end balance where to do so favors the utility company? If so, please provide a copy of such prior testimony.

Response to a: See Mr. Henkes' response to question 6 a).

Response to b: See Mr. Henkes' response to question 6 b).

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Witness Responsible:
ROBERT J. HENKES

Question 9: Please reference Henkes testimony, at p. 16, lines 2-4. Given that Mr. Henkes is recommending a 13-month average for the test year M&S balance, did Mr. Henkes consider adjusting the 13-month average balance for an inflation factor, such as the consumer price index? Please further state whether Mr. Henkes believes such an adjustment would be appropriate; and, if not, why not?

Response: In his 30 years of regulatory experience, Mr. Henkes has never encountered an adjustment to adjust an average test year rate base balance for the impact of any inflation during the test year. Mr. Henkes did not adjust his recommended 13-month test year M&S balance for an inflation factor as he does not believe that this would be an appropriate adjustment. In any event, the inflation factor for the test year would be 1.00, similar to what the Company has assumed for its proposed Big Sandy maintenance and storm damage normalization adjustments (see Section V, WP S-4, pages 16 and 38).

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Witness Responsible:
ROBERT J. Henkes Consulting

Question 10: Please reference Henkes testimony, at p. 16, line 16-20.

a) Please provide the calculation that produced Mr. Henkes' determination of an average daily burn rate of 7,048 tons.

b) Further, please state whether Mr. Henkes would agree that a better method for determining a proper daily burn rate to use in establishing the proper level of coal inventory for the 35 day coal supply period would be the highest average daily burn rate over a 35 day rolling period, over the 26-month period from September 2003 through October 2005. If Mr. Henkes would not agree, please explain the basis for his disagreement.

Response to a: As explained on page 16, lines 16-18, the average daily burn rate of 7,048 was calculated by taking the average of the daily burn rates actually experienced by KPCo during the 26-month period from September 2003 through October 2005. This actual burn rate information is shown in the response to AG-1-17b2, page 2 of 3.

Response to b: Mr. Henkes believes that his recommended average daily burn rate of 7,048 is appropriate and calculated using a reasonable approach. Mr. Henkes has not evaluated the alternative approach referenced by the Company.

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Witness Responsible:
ROBERT J. HENKES

Question 11: Please reference Henkes testimony, at p. 24, lines 19-24. Please provide a copy of the KPSC, FERC and USOA documents that prohibit payroll amounts charged to Other Accounts from being allocated to O&M.

Response: The above question does not correctly characterize Mr. Henkes' position in this case with regard to the issue referenced in the question. It is Mr. Henkes' stated position that, under FERC and USOA reporting requirements, payroll amounts initially charged to "Other Accounts" 163 (stores expense undistributed) and 184 (clearing accounts) are eventually cleared and allocated to O&M, Construction and Plant Removal.[2] It is Mr. Henkes' understanding that FERC and USOA reporting requirements do not allow a similar treatment for accounts 152,186, 188 and 242. This was confirmed by the Company in its responses to AG-1-26(c) and AG-2-6(d). Mr. Henkes' stated understanding is that the payroll costs charged to "Other Accounts" 152, 186, 188 and 242 remain in "Other Accounts" (as opposed to being allocated to O&M, Construction and Plant Removal accounts) in the reporting of the Company's annual payroll distribution to FERC and the KPSC.[3]

Other than the Company's FERC Form 1 Reports, and the Company's responses to AG-1-26, AG-2-6 and KPSC-1-23c, page 17, Mr. Henkes does not have, and has not relied on, any other documentation.

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2 Henkes direct testimony page 23, lines 16-18.
3 Henkes direct testimony page 24, lines 1-3.

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Witness Responsible:
ROBERT J. HENKES

Question 12: Please reference Henkes testimony, at p. 27, lines 17-21.

a) Mr. Henkes states that "[s]tockholders are the primary beneficiaries of the achievement of corporate financial performance goals." Please identify the other beneficiaries of such achievement.

b) Further, does Mr. Henkes recognize or accept the fact that incentive compensation plans are a factor considered by prospective employees considering employment with KPC? Does Mr. Henkes further believe that incentive compensation plans are offered by other business and industries against whom KPC and AEP are competing to attract highly qualified employees?

Response to a: Mr. Henkes does not believe that there are other beneficiaries of any significance.

Response to b: Mr. Henkes recognizes that compensation is one of many factors considered by prospective employees considering employment with KPCo. With regard to the second part of question b above, Mr. Henkes has not reviewed the "other businesses and industries against whom KPC and AEP are competing to attract highly qualified employees," and does not know whether and, if so, what kind of incentive compensation plans are being offered by these businesses and industries.

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Witness Responsible:
ROBERT J. Henkes Consulting

Question 13: Please reference Henkes testimony, at p. 33, lines 2-4.

a) Please state the source of Mr. Henke's understanding of the "Commission's policy to normalize test year storm damage expenses using a 10-year historic average with an inflation factor based on the CPI-U."

b) Please identify any Commission regulation, written policy or published Orders where this policy is established or recognized.

c) Over the past 15 years, please list each KPSC rate case in which the Commission normalized test year storm damage expense, and state the time period employed for the normalization, and identify the reason for any deviation.

Response to a: See the Commission's data request 3-8(c). Also, see KPSC Order in ULH&P Case No. 90-041; KPSC Orders in LG&E Case No. 90-158, LG&E Case No. 98-426 and LG&E's and KU's most recent rate cases, Case Nos. 2003-00433 and 2003-00434.

Response to b: See response to a above.

Response to c: Mr. Henkes has not performed this specific review and is therefore not in the position to provide a response to this request. Mr. Henkes notes that the KPSC orders are a matter of public record which would allow the Company to perform its own review

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Witness Responsible:
ROBERT J. Henkes Consulting

Question 14: Please reference Henkes testimony, at p. 34, line 20 to p. 35, line 12.

a) In calculating a normalized maintenance expense level using an historic period, does Mr. Henkes believe it is appropriate to adjust such data for new or additional maintenance requirements that arise within the normalization period due to the installation of additional equipment?

b) If such adjustment is appropriate, please explain whether Mr. Henkes made such an adjustment in Schedule RJH-16; and, if not, why not.

Response to a: No.

Response to b: Not applicable.

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Witness Responsible:
ROBERT J. HENKES

Question 15: Please reference Henkes testimony, at p. 36, lines 11-19. Please set forth in detail the source of the "well-established KPSC ratemaking policy" referred to. Please further advise if Mr. Henkes has any basis or authority in support of his proposed net revenue adjustment other than the KPSC policy. If so, please identify same.

Response: As an example, Mr. Henkes can point to KPSC Order page 28 in LG&E's most recent rate case, Case No. 2003-00433.

Also, Mr. Henkes' response to KPCo question 6a provides support for his proposed 13-month average customer balance in the calculation of the test year-end customer adjustment.

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Witness Responsible:
ROBERT J. HENKES

Question 16: Please reference Henkes testimony, at p. 37, lines 20-23, p. 38, line 1. Please identify each "recent Kentucky utility base rate proceedings" wherein the Operating Expense Ratio was adjusted as stated by Mr. Henkes. Please provide each case name, and case number, referenced in answer to this data request.

Response: This ratemaking policy was first established by the KPSC in Delta Natural Gas Company's 1999 rate case, Case No. 99-176. See pages 13 and 14 of the KPSC's Order in Case No. 99-176. Mr. Henkes is aware that the KPSC applied this ratemaking policy in Delta's subsequent rate case, Case No. 2004-00067 and in LG&E's most recent two rate cases, including the most recent Case No. 2003-00433.

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Witness Responsible:
ROBERT J. HENKES

Question 17: Please reference Henkes testimony, at p. 41, lines 3-5. In considering any adjustment to test year data, what criteria does Mr. Henkes apply to determine whether such adjustment represents a "known and measurable event that can be accurately quantified."

Response: See Mr. Henkes' response to the preceding question 3.

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Witness Responsible:
ROBERT J. HENKES

Question 18: Please reference Henkes testimony, at p. 42, lines 25-26. Please identify and list the "large number of estimates and assumptions" which he believes underlie the PTP and NTS revenue projections.

Response: **Bethel direct testimony, page 6, lines 10-11**: "Exhibit DWB-1 *estimates* the share of PJM transmission revenues that KPCo *might expect* to receive in 2006…" (emphasis supplied).

Bethel direct testimony, page 6, lines 17-18: "The second block of numbers on lines 1 through 10 *estimates* the January through July, 2006PJM PTP revenue credits…." (emphasis supplied).

Bethel direct testimony, page 6, line 23 through page 7, line 7: "The third block of numbers on lines 23 through 34 *estimates* the PTP revenue credits that the AEP Zone *might* receive from PJM in the remaining months of 2006 given the *projected* April 2006 transmission rate and revenue requirement increase, and *assuming* that the transaction level in the months of August through December 2006 will equal the levels during the months of June through February of 2005, respectively. That is, the transaction levels in June are taken as a *proxy* for the transactions that might occur in August, May for September, April for October, March for November and February for December.

Bethel direct testimony, page 7, lines 17-19: The following assumptions: "I believe that the level of PJM PTP transactions during the last quarter of 2004 was likely to have been influenced by factors that do not exist in 2005 and will not exist in 2006."

Bethel direct testimony, page 8, lines 17-21: "The NTS revenue was calculated based on the AEP Zone NTS rate that I *estimate* will be effective April 1, 2006…" "The NSPL that will be used in 2006 is not yet available, so it was necessary to use an *estimate* of the NSPL."

Bethel direct testimony, page 9, lines 2-4: "The *estimated* monthly third party NTS revenue was multiplied by KPCo's monthly *projected* AEP Member Load Ratio ("MLR") to determine KPCo's share of the projected revenue.

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Witness Responsible:
ROBERT J. HENKES

Question 19: Please reference Henkes testimony, at p. 44, lines 10-14. Please identify each of the "many estimates and assumptions" to which Mr. Henkes is referring, and explain the basis for his position that each such adjustment "cannot be verified at this time." In answering this Data Request, please further state Mr. Henke's definition and/or criteria for the term "known and measurable" as used at p. 44, lines 10-11.

Response: See Mr. Henkes' response to the preceding question 18. Since the estimates and assumptions are for projections for the full year 2006, they cannot be verified through actual data at this time. With regard to Mr. Henkes' known and measurable definition, please refer to his response to the preceding question 3.

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Witness Responsible:
ROBERT J. HENKES

Question 20: Please reference Henkes testimony, at p. 50, lines 24-25. Please explain by what amount PJM revised its proposed stated rate downwards in a supplemental November 30, 2005 filing.

Response: Mr. Henkes only knows that PJM revised its proposed "stated" rate downwards (based on his review of date response KPSC-3-13), but does not know by what exact amount.

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Witness Responsible:
ROBERT J. HENKES

Question 21: Please reference Henkes testimony, at p. 57, line 3. Please identify the "ratemaking policy" referred to, and provide cites or references to Kentucky statutes, KPSC regulations or other authority which Mr. Henkes believes establishes or evidences such policy.

Response: As the most recent example of this KPSC ratemaking policy, please refer to the Commission's Order, pages 50 and 51, in LG&E's most recent electric and gas cases, Case No. 2003-00433. Mr. Henkes believes that this KPSC ratemaking policy has been applied by the Commission since 1990. Mr. Henkes has relied on this KPSC ratemaking policy only.

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Witness Responsible:
ROBERT J. HENKES

Question 22: Please reference Henkes testimony, at p. 61, lines 1-10. Referring to the citation of a prior KPSC determination that there was "no evidence that [Kentucky Power] employee discounts is considered in its wage and benefits negotiations" does Mr. Henkes have an opinion as to whether such discounts are considered by prospective employees in wage and benefit negotiations? If so, what is that opinion?

Response: Mr. Henkes does not have an opinion on this matter.

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Witness Responsible:
ROBERT J. HENKES

Question 23: With respect to Injuries and Damages expense referred to in AG Data Request, 1st Set, DR-76, has Mr. Henkes, in prior testimony, ever recommended using a 10-year historic average, adjusted for inflation (using the CPI-U, or other inflation factor)? If so, please provide copies of such testimony.

Response: Yes. In Case No. 2001-00092, Union Light Heat & Power proposed the use of a 10-year historic average I&D expense level, adjusted for a CPI inflation factor. Other than making a small adjustment to ULH&P's proposed expense level, Mr. Henkes accepted the company's proposal in that case.

Attached is the relevant page of Mr. Henkes' testimony and the relevant testimony schedule addressing this issue in Case No. 2001-00092.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS RATES	)	
OF THE UNION LIGHT, HEAT AND	)	**CASE NO. 2001-092**
POWER COMPANY	)	

DIRECT TESTIMONY OF ROBERT J. HENKES ON BEHALF OF THE OFFICE OF RATE INTERVENTION OF THE ATTORNEY GENERAL FOR THE COMMONWEALTH OF KENTUCKY

OCTOBER 4 , 2001